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ABSTRACT

This lesson guide is designed to help U.S. history teachers and students in grades 8-11 examine historic events through basic economic reasoning. It lends itself to instruction grounded in inquiry learning, direct instruction, and cooperative learning. It calls for students to be engaged in case studies, simulation exercises, and group work, as well as lectures, class discussion, reading, and writing. This volume (2 of 2) includes nine units, each of which presents a unit overview, two to seven lessons (31 altogether), and sample test items. Each lesson includes an introduction that summarizes the historical facts and economic principles to be used in the lesson, a concept list, instructional objectives, an estimate of the time required for instruction, and a list of instructional materials, including visuals for transparencies, and student activities. Each lesson contains detailed teaching procedures, which typically begin with a statement of purpose and include discussion questions, activities, anticipated responses, and answers to questions posed in the activities. Each lesson culminates with a closure activity that reviews learning, provides a lesson summary, or invites additional applications. The program is designed for supplemental use with a secondary U.S. history textbook and is intended to integrate the study of history and economics. The program is not intended for use as a self-contained history course; it focuses only on the economic dimensions of U.S. history. (Author/BB)

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United States History: Eyes on the Economy.
Volume Two: Through the 20th Century.

National Council on Economic Education, New York, NY.

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VOLUME TWO: Through the 20th Century

UNITED STATES HISTORY
EYES ON THE ECONOMY

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National Council
on Economic Education
The EconomicsAmerica and EconomicsInternational Programs

VOLUME TWO: Through the 20th Century

UNITED STATES HISTORY

EYES ON THE ECONOMY

Mark C. Schug

Jean Caldwell

Donald R. Wentworth

Beth Kraig

Robert J. Highsmith

National Council
on Economic Education

THE EconomicsAmerica AND EconomicsInternational PROGRAMS

AUTHORS

Mark C. Schug
Professor of Curriculum and Instruction
University of Wisconsin-Milwaukee

Jean Caldwell
Professor of Economics
University of Central Oklahoma

Donald R. Wentworth
Professor of Economics
Pacific Lutheran University

Beth Kraig
Assistant Professor of History
Pacific Lutheran University

Robert J. Highsmith
Director of Research
National Action Council for Minorities in Engineering

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FOREWORD

United States History: Eyes on the Economy is the latest in the continuing series of highly effective, classroom-tested publications produced by the National Council on Economic Education[1] for high school teachers and students.

The program helps U.S. history teachers and students examine events in our history through basic economic reasoning. That reasoning—six powerful ideas that explain the economic behavior of people—is used throughout the lessons to illuminate understanding of our past. Fascinating new insights emerge as students apply economic analysis to the events covered in traditional history courses. In the very first unit, for example, students discover why recent sightings of Elvis Presley around the country have occurred. In ensuing units students use economic reasoning to understand the first Americans, exploration and settlement, the road to revolution, the constitutional period, the founding of a new nation, the booms and busts of the early and late 1800s, the trauma of the Civil War, the homesteading period, the industrial revolution, the many traumas of segregation, the Great Depression and the New Deal, recent events in our nation's economic history, and more.

Mysteries abound in U.S. history. Students, acting like detectives, solve historical mysteries by searching for clues and piecing them together in ways that add important new insights to familiar subjects. *United States History: Eyes on the Economy* is filled with mysteries that are clarified by economic analysis. Using the program to solve mysteries of the past prepares students in grades 8-11 to solve present-day mysteries surrounding them.

I thank especially the principal writer, Mark Schug, the other writers, reviewers, and field testers. I also thank former National Council staff members, Robert Highsmith and Joan Sullivan Baranski, for their hard work and creativity in producing this program. Special thanks go to the Calvin K. Kazanjian Economics Foundation, Inc., its board, and Michael A. MacDowell, Director, for their encouragement in undertaking the project and for their generous financial support.

Robert F. Duvall, President & CEO
National Council on Economic Education

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[1] The National Council on Economic Education is the former Joint Council on Economic Education.

PREFACE

The authors of this project regard the past as a dimly lit room where people have lived and events have occurred. We may not have seen clearly each action and individual. Intellectual lights must be used to illuminate this room, so we can better observe and evaluate its contents. These lights come from the fields of economics, political science, history, anthropology, sociology, ethics, and others. As our spotlight, we chose a deductive reasoning model from the field of economics. This model provides insights into individual and group behavior by focusing on *Choice, Incentives, Disincentives,* and *Anticipated Consequences.*

When students envision the past, they often see it not as a room in which interesting and mysterious events have occurred, but as a lengthy sequence of names and dates. That events occurred, one after the other, students recognize. *Why* events occurred (and why others did not) is shadowy, harder to see.

To help students understand *why*, teachers introduce the intellectual framework of cause and effect. This adds light to the room, but also adds complexity, since the precise causes that shaped specific effects are almost always debatable. What caused the Civil War? Why did the Jim Crow system emerge at the turn of the century? If the answers to such questions are always subject to debate, how can teachers illuminate their students' investigation of the past and help them develop and support thoughtful arguments to explain what they find?

Using the deductive reasoning model that characterizes this program, teachers can provide three important spotlights for students: a) they can help them recognize that an amazingly diverse range of causes is usually at work before every effect; b) they can help them think critically and logically about the *weight* that each cause carried; and c) they can convince them that most conclusions are tentative, subject to change as new evidence and new evaluations emerge. As the light in the room intensifies, or the positions of spotlights shift, students of the past will ask more questions and may revise their conclusions.

The deductive reasoning model that ***Eyes on the Economy*** employs embodies the principles we call the *Handy Dandy Guide (HDG)*. While all six principles in the *HDG* serve the teacher well, three are especially appropriate to the study of the past.

The first is choice (people choose). Teachers use this principle to help students recognize that options are available to people at any time. Not all people have the same options, not all have positive options, but people do choose. Today, we seldom attribute historical events to the intervention of fate or gods as did the ancients.

People try to choose the best option they think is available. Incentives and disincentives influence this choice. Incentives are positive consequences that people anticipate, while disincentives are anticipated consequences that people try to avoid. However, since the consequences lie in the future, they can only be anticipated, not known. Anticipated consequences may not occur, and unanticipated ones may. This makes the world risky and outcomes can be disappointing.

By using the *HDG* and economic reasoning, students learn that history is extraordinarily complex but understandable, that human experience is richly diverse but can be evaluated and explained. Students will be driven not to accept monocausal or single explanations for debated historical developments, but encouraged to develop multicausal, evidence-centered explanations. They will also learn to respect the careful and thorough arguments that others construct, and to debate with others the merits and logic of their interpretations and their evidence. Using the light of economic reasoning, students will illuminate a larger portion of the past and expand their ability to describe and explain the new things that they see.

U.S. HISTORY: EYES ON THE ECONOMY

HISTORY IS INCOMPLETE WITHOUT ECONOMICS

United States history holds a central place in the school curriculum. More than any other discipline or field of study, it is what American schools rely upon to teach young people about their national identity and all that that means. In this curricular context, economics always has been understood, together with political science and geography, as a fundamental aspect of U.S. history. School district curriculum guides for history across the country include goals related to study of the U.S. economy and its relationship to the world economy. Unfortunately, the goal of incorporating economics in history courses has eluded many schools. In fact, research suggests that students gain little new economic understanding from existing U.S. history courses. Moreover, U.S. history textbooks are revealed by this research to lack accurate information about the historical development of the economy.

APPLYING ECONOMIC REASONING TO HISTORY

The primary goal of this program is the improvement of students' skill in using economic reasoning to understand the past, to understand the present, and to anticipate the future. It introduces a specific set of economic principles to help students understand better a wide range of historical questions. The economist Paul Heyne observes that economic principles can help students to:

> *. . . make sense out of buzzing confusion. They clarify, systematize, and correct the daily assertions of newspapers, political figures, ax grinders, and bar room pontiffs.*

The program highlights mysteries in United States history to help students improve their economic reasoning skills. Each mystery presents a historical paradox. Here are some examples:

1. American colonists prospered under English rule, yet they chose to fight a war to gain independence. Why?

2. Prior to the Civil War, the North had more railroads, more industry, and a larger population than the South. Yet the South chose to fight the North. Why?

3. Despite the fact that the Homestead Act gave free land to settlers, more people paid for land to settle after its passage than accepted free land. Is free land a good deal?

4. In the late 19th century, monopolies were established in many key U.S. industries. Governments passed legislation to regulate monopolies but succeeded in breaking up only a few. What happened to all the rest?

5. In 1896, Homer Plessy failed in his attempt to strike down segregation in the South. In 1955, Rosa Parks succeeded. Why?

6. While President Franklin Roosevelt's New Deal is widely credited with ending the Great Depression, some New Deal plans actually impeded economic recovery. Why?

7. After nearly every war in U.S. history, the U.S. economy slackened when the troops returned home. Yet, the U.S. economy did not slacken after World War II. Why?

8. How could Michael Jackson and a Jeep represent U.S. survival in the global economy?

Students are invited to unravel mysteries such as these by applying economic principles and by examining evidence gathered by economic historians.

SOLVING MYSTERIES

To solve economic mysteries, it is necessary, of course, to know certain historical facts—for example, what was the New Deal? How did New Deal programs work? But facts by themselves often cannot explain interesting historical problems. In addition to information, it helps to have a well-defined intellectual framework with which to *approach* historical problems. A framework—consisting of a set of hunches or assumptions—is what enables investigators to get started. It points their inquiry in a certain direction, just as the well-founded assumptions of detectives tell them, for example, to find out who might have had a *motive* to commit a crime, and who among those with a motive also had the *means*.

United States History: Eyes on the Economy invites students to act like detectives. Instead of murder mysteries, however, students learn to solve economic mysteries implicit in important topics and themes in U.S. history. Like detectives and other people who solve problems, economists also work from a set of assumptions or principles about human behavior. These assumptions are derived from behavior analyzed over hundreds of years and reflected in a variety of cultures. They have power to help students describe and explain a wide range of human behavior from an economic perspective.

The program introduces these assumptions by means of a heuristic called the *Handy Dandy Guide (HDG)*. This device is a simple yet powerful summary of key principles of economic behavior. It may be used, in the way chemistry teachers use the periodic table of elements, to keep the principles firmly in the minds of the students. Here are the *HDG* principles:

1. People choose. People always face choices. People choose the alternative that gives them the most advantageous combination of costs and benefits. People choose even when those choices appear to be badly informed or in cases where choices are so limited that it appears there is no choice. Explicitly or implicitly, people make choices.

2. People's choices involve costs. People incur costs when making decisions, even when they appear to have paid nothing. One important way of assessing cost in economics is to consider the second best alternative that people give up when they make their best choice.

3. People respond to incentives in predictable ways. Incentives are rewards that encourage people to act. When incentives change, people's behavior changes in predictable ways.

4. People create economic systems to influence choices and incentives. Cooperation among people is governed by written and unwritten rules. As rules change, incentives change, and behavior changes.

5. People gain when they trade voluntarily. People trade when what they receive through trade makes them better off. If they expect no benefit, people will not trade.

6. People's choices have consequences that lie in the future. When people make decisions, they try to anticipate future costs and benefits. The future, of course, is uncertain, so decisions are risky and some decisions are mistaken.

Before applying economic principles to solve a mystery, students examine relevant historical facts. These facts derive from investigations conducted by historians. Through practice in applying economic principles to the analysis of historical facts, students learn to solve mysteries and gain, in the process, a greater understanding of U.S. history. This process of investigation, summarized in the following steps, recurs frequently in our lessons.

1. Review familiar facts from U.S. history.

2. Discover an economic mystery.

3. Apply economic principles summarized by the *Handy Dandy Guide*.

4. Discover historical facts revealed by the economic principles.

5. Formulate a tentative solution to the mystery.

6. Test the conclusions against other evidence or by applying them to current problems.

SPECIAL FEATURES

In addition to stressing economic reasoning and facts from economic history, several lessons in *United States History: Eyes on the Economy* make use of special content, including the following:

1. Entrepreneurship case studies stressing the role of individuals in the economy.

2. The contributions of women and minorities to U.S. economic history.

3. The role of popular culture, including music and fashion, in U.S. history.

4. The conflicts faced by all decision makers, including politicians, as they attempt to achieve goals in a competitive environment.

5. The importance of money as an influence on historical events.

INSTRUCTIONAL APPROACHES

The program lends itself well to instruction grounded in inquiry learning, direct instruction, and cooperative learning. It calls for students to be engaged in case studies, simulation exercises, and group work, as well as lectures, class discussion, reading, and writing. Moreover, the program takes into account the characteristics of the learner, striving to anticipate the economic misunderstandings that are common.

FORMAT

United States History: Eyes on the Economy consists of two volumes. Volume One includes eight units; Volume Two, nine units. Unit One is repeated in Volume Two. The content is linked to material ordinarily found in secondary school U.S. history courses. Each unit contains a unit overview, two to seven lessons, and sample test items.

The lessons are designed to be used as independent units. Teachers should use the three lessons in Unit 1 to introduce the program. These lessons introduce key ideas (the use of economic reasoning and supply and demand analysis) that are elaborated in subsequent lessons.

Each lesson includes an introduction that summarizes the historical facts and economic principles to be used in the lesson, a concept list, instructional objectives, an estimate of the time required for instruction, and a list of instructional materials, including visuals for transparencies, and student activities. Each lesson also contains detailed teaching procedures. These procedures typically begin with a statement of purpose and include discussion questions, activities, anticipated responses, and answers to questions posed in the activities. Each lesson culminates with a closure activity that reviews learning, provides a lesson summary, or invites additional applications.

The program is designed for supplemental use with a secondary U.S. history textbook and is intended to integrate the study of history and economics. The program is not intended for use as a self-contained history course. It focuses only on the economic dimensions of U.S. history.

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NATIONAL DESIGN TEAM

Janna Bremer teaches history in the King Philip School District, Massachusetts, and is National Council for the Social Studies liaison to this project.

James Clark is Professor of Economics at Wichita State University.

John S. Morton teaches in the Homewood-Flossmor School District.

Robert Reinke is Associate Dean of the College of Business at the University of South Dakota.

Tim Schilling is an economic education consultant.

Nancy Seay teaches history at Riverside University High School, Milwaukee, Wisconsin.

David Vigilant is liaison to the program from the California State Department of Education.

Victor Walne is a consultant to this project from the University of Cambridge, England.

Thomas Weiss is Professor of Economics at the University of Kansas and former editor, *Journal of Economic History*.

FIELD TEST TEACHERS

Candice Allen, Centennial High School, Pueblo, Colorado; Kris Barnett, Jarman Junior High School, Midwest City, Oklahoma; Bob Brown, Shawnee High School, Shawnee, Oklahoma; Jennifer Fontanini, Wauwatosa East High School, Wauwatosa, Wisconsin; Mark Garner, Edmond High School, Edmond, Oklahoma; Jay Grenawalt, George Washington High School, Denver, Colorado; Clint Howard, Edmond High School, Edmond, Oklahoma; Paul Noack, Marquette University High School, Milwaukee, Wisconsin; Mary Oppegard, Shawnee High School, Shawnee, Oklahoma; Kathy Ratte, Chatfield Senior High School, Littleton, Colorado; Ron Sharp, Shawn High School, Shawnee, Oklahoma; Joe Trewyn, Custer High School, Milwaukee, Wisconsin; Donny J. Vass, Jarman Junior High School, Midwest City, Oklahoma; Judy Woodard, Jarman Junior High School, Midwest City, Oklahoma.

EDITORS

Mark C. Schug and Richard D. Western of the University of Wisconsin-Milwaukee are the senior editors of *United States History: Eyes on the Economy*.

SOLVING ECONOMIC MYSTERIES IN UNITED STATES HISTORY: A USER'S GUIDE

UNIT 1 INTRODUCES STUDENTS TO AN ECONOMIC way of thinking. It focuses on two curiosities of popular culture—Elvis Presley and the Hula Hoop—in an effort to engage students' interest. These topics also introduce the important point that economic history is the history of everyday life as well as the history of wars and presidents. Teachers should use all three lessons in Unit 1, since each one contributes to the mode of analysis that subsequent lessons will elaborate.

Lesson 1 introduces students to economic reasoning by confronting them with a mystery about Elvis Presley. Why do we keep hearing that Elvis is still alive? After learning how to use the *Handy Dandy Guide(HDG)*, the students analyze Elvis Lives reports in light of the idea that people make choices. People desire entertainment, and they are willing to pay for it. Tabloid newspaper publishers and editors, not concerned primarily about the accuracy of their stories, make money by providing what people want. When voluntary trade takes place between publishers and readers, both sides gain.

Lesson 2 uses examples from worldwide trade in textiles to enable students to practice the sort of economic reasoning introduced in Lesson 1. By reference to a mystery about diverse economic activity, students use economic reasoning to explain the connections among textile mills, whaling, and fur trapping.

Lesson 3 uses the example of the Hula Hoop to analyze how prices are incentives to producers and consumers. This lesson introduces the use of supply and demand graphs. Markets are a dominant force which have shaped much of U.S. history. Supply and demand analysis is a tool for understanding market behavior.

SOLVING ECONOMIC MYSTERIES IN UNITED STATES HISTORY: A USER'S GUIDE

INTRODUCTION

History: Elvis Presley was a very popular rock and roll singer and movie star in the 1950s and 1960s. In 1977 he died and was buried in Memphis, Tennessee.

Mystery: Since 1977, Elvis supposedly has been spotted in supermarkets and small towns across the United States. Why do people report having seen a dead man?

Economic History: People make choices. They want entertainment, and they are willing to pay for it. Beginning in the late 1970s, publishers of tabloid newspapers found that they could make money by providing people with entertaining stories about Elvis Presley. Readers found that they enjoyed reading about Elvis. The voluntary trade between producers and consumers of tabloids left both sides feeling better off.

CONCEPTS

Economize
Choice
Alternatives
Opportunity Cost
Benefits
Incentives
Economic System
Trade

OBJECTIVES

♦ Identify six assumptions that guide economic analysis.

♦ Use the *Handy Dandy Guide(HDG)* as a guide to reasoning about economic mysteries.

LESSON DESCRIPTION

This lesson uses introductory readings and discussion to explain to students what they will be studying and how they should approach solving economic mysteries in U.S. history. Students are introduced to the *Handy Dandy Guide(HDG)*, which summarizes principles they will use to solve economic mysteries.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency of Visual 1.

One copy for each student of Activities 1, 2, 3, 4, and 5.

PROCEDURE

1. Welcome students to the world of U.S. history and the economic mysteries to be encountered within it. Introduce the idea that economic events often puzzle people. Some publishers of newspapers, for example, give their papers away free. Why? Are they too rich or too foolish to care? When we encounter cases of this sort, we should not pretend to be unsurprised. Instead, we should pay close attention to the oddity of the case; it is in learning to explain such oddities or mysteries that we learn to understand history and economics. This lesson provides a first illustration of how it works.

2. Tell the class that to begin our study of the economic past, you will introduce a problem regarding reports that Elvis Presley is alive. Distribute Activity 1 to the class. After the students have read it, briefly review the facts involving sales (1 billion units), songs on the *Billboard* Pop Chart (100), films (31), and so on.

3. To underscore your emphasis on economic mysteries, distribute Activity 2 to the class. Ask the students to speculate about why so many people—especially those who write tabloid newspapers—report that Elvis is alive. (Accept a variety of answers.)

4. Explain that one way to solve this mystery is to deduce a plausible answer using certain assumptions as a starting point for thinking logically about the historical evidence. Point out that this approach to problem solving is often followed by famous detectives like the fictional Sherlock Holmes. Detectives like Holmes use

deduction to help solve mysteries. They proceed from a set of assumptions about how people act. Given an act of homicide, for example, they ask, who had a motive to commit it? Who had the opportunity? When trying to solve economic mysteries, we will use the same process of reasoning, but we will begin with a different set of assumptions.

5. Distribute Activity 3, the *Handy Dandy Guide(HDG)*. Explain that Activity 3 introduces the assumptions students can use to solve economic mysteries. Stress the key assumption of the *HDG*: That historical events can best be understood as the result of human choices. For example, economic detectives ask: Why do people make the choices they make? What are the benefits? What are the costs?

6. Show how the *HDG* works by asking students to use it in thinking about possible explanations of the Elvis mystery. *Ask:*

A. What choices seem to be involved in continuing news reports that Elvis is really alive?

B. How do readers react after choosing to read the Elvis stories? Are they shocked by the stories' blatant falsehoods?

7. Distribute Activity 4 and divide the class into small groups. Explain that this handout shows how the *HDG* can be used to solve a mystery from an economic perspective. Allow the students time to read and discuss Activity 4, using the discussion questions as a guide. Discuss the group responses and ask:

A. Are the editors of tabloid newspapers forced to publish stories which claim that Elvis is alive? Are readers forced to read them? (No. Editors and readers *choose* to do this.)

B. What is the opportunity cost to editors of printing stories which claim that Elvis is alive? (The headline not used: for example, TALKING DOG RESCUES BABY FROM CAVE.)

C. What incentive or reward encourages editors to publish untrue stories about Elvis? (There is a financial reward for doing so.)

D. What rules operate in the tabloid newspaper business? (Successful tabloids depend on people choosing to buy stories that are of interest to them. Readers enjoy the entertainment and do not insist that the stories be accurate.)

E. How do readers, newspaper writers, and editors gain, respectively, when trade takes place among them? (Readers gain entertaining stories in exchange for money. Tabloid producers gain revenue.)

F. Will editors continue to publish these untrue stories about Elvis in the future? (Yes, as long as people remain willing to pay for such entertainment.)

CLOSURE

Ask the students to review the points of the *HDG*. Stress the point that historical events are the results of human choices. This idea is central to economic reasoning about the past.

Distribute the *Handy Dandy Guide Cards* cut from Activity 5, giving one to each student. Ask the students to keep their cards nearby—in wallets or taped to history notebooks—so that they can be used whenever the students encounter instances of mysterious behavior in their subsequent work in U.S. history.

Name______________________

ACTIVITY 1

ELVIS FACTS AT A GLANCE*

ELVIS PRESLEY HAS SOLD OVER 1 BILLION record units worldwide, more than any individual or group in the history of the record industry. No one else comes close. Laid end to end, these billion albums and singles would wrap around the earth at the equator more than twice.

Elvis has had no fewer than 149 songs to appear on *Billboard*'s Hot 100 Pop Chart in America. Of these, 114 were in the top forty, 40 were in the top ten, and 18 went to number one. His number one singles spent a total of 80 weeks at that slot. He has also had over 90 charted albums. These figures are for the pop charts only; he also had great success on the country, rhythm and blues, and gospel charts as well.

Elvis Presley's trophy room at Graceland is filled with gold and platinum records and awards of all kinds from United States and from around the world, including Norway, Yugoslavia, Japan, Australia, South Africa, England, Sweden, Germany, France, Canada, Belgium, and the Netherlands. It is interesting to note that, except for a handful of movie soundtrack songs, Elvis did not sing in other languages, and, except for three engagements in Canada in 1957, he did not perform outside the United States. Still, his recordings and films enjoyed, and continue to enjoy, popularity all over the globe. He is known throughout the world by his first name, and there are well over 250 active Elvis fan clubs worldwide—more clubs than any recording artist has ever had.

Elvis Presley's three network television specials stand among the most highly rated in American television history. His 1973 special, "Elvis—Aloha from Hawaii, via Satellite," was seen in 40 countries by 1 to 1½ billion people, and it made television history. It was seen on television in more American homes than the first walk on the moon.

Elvis starred in 31 feature films and two theatrically released concert documentaries, all of which enjoyed financial success. For a number of years he was one of Hollywood's top box office draws and one of its highest paid actors.

Elvis received 14 Grammy nominations from the National Academy of Recording Arts and Sciences (NARAS). His three wins were for gospel recordings. In 1971, when Elvis was 36, NARAS recognized him with its Lifetime Achievement Award.

The United States Jaycees named Elvis "One of the Ten Outstanding Young Men of the Nation" for 1970, one of Elvis's proudest moments. This award has been given since 1938 and has honored people of greatness in all areas of endeavor—sports, government, science, medicine, entertainment, and so on. It recognizes outstanding achievement and exemplification of the opportunities available in the free enterprise system, as well as humanitarianism and community service.

Graceland, Elvis Presley's home and refuge for 20 years, is today one of the five most-visited private homes in America, with over 600,000 visitors annually. It is also one of the most widely recognized private homes in America, and second only to the White House when all homes are considered.

**Thanks to Graceland for supplying these facts.*

Name______________________

ACTIVITY 2
ECONOMIC MYSTERY
IS ELVIS DEAD?

WELCOME TO THE STUDY OF U.S. HISTORY and its economic mysteries! You will find your work interesting, complicated, confusing and fun. You can expect that result because history is about people, and people tend to be interesting, complicated, confusing, and fun. In an effort to reduce the complicated and confusing part, this lesson introduces one important approach to help you make sense out of people's behavior.

The first step in understanding people's behavior is to recognize that *events are the results of human choices*. Events could have been different if people had made different choices. Let's apply this idea to a problem: Is Elvis dead?

IS ELVIS DEAD?

If you had visited the United States in 1958, you would have heard and seen a very popular singer perform. His name was Elvis Presley. His recordings (beginning in 1956 with "Heartbreak Hotel") and movies (he starred in over 30 films) were very popular during the 1960s. Even though he died in 1977 and was buried in Memphis, Tennessee, people say they have spotted him in supermarkets and small towns throughout the United States. Several best-selling books about him have been published. His records and movies continue to be popular, bringing in more money now than during the 1960s. Is Elvis dead? Well, he may be buried but . . . .

Why do people keep reporting that Elvis is alive? Is it simply that people are gullible? Is the evidence surrounding his death uncertain? These are reasons people often think of, but you can do better. Use the *Handy Dandy Guide (HDG)* questions from Activity 3 to help you explain why we continue to hear that Elvis is still alive.

Name________________________

ACTIVITY 3
HANDY DANDY GUIDE (HDG)

1. **People choose.**
   What is the choice being made?
   Who is making the choice?
   What other alternatives are available?
   What are the benefits of each alternative?

2. **People's choices involve costs.**
   What are the costs of each choice?
   What are the alternatives?
   What is being refused?

3. **People respond to incentives in predictable ways.**
   What are the expected costs?
   What are the expected benefits?
   Do the people involved understand the costs and benefits associated with the choice?

4. **People create economic systems that influence individual choices and incentives.**
   What are the rules of the system?
   How were the rules created?
   Who enforces the rules?
   How might the rules have changed?

5. **People gain when they trade voluntarily.**
   Why is exchange taking place or not taking place?
   How do these choices influence trade and exchange?
   Are some of the exchanges nonvoluntary?

6. **People's choices have consequences that lie in the future.**
   What costs and benefits do you foresee?
   How risky (likely to lead to an unfavorable outcome) is the choice being made?

Name______________________

ACTIVITY 4
A NEW AUTOPSY FOR ELVIS

Why do people keep reporting that Elvis Presley is alive? The following analysis uses the principles from the Handy Dandy Guide (HDG) to perform an "economic autopsy" on Elvis.

PRINCIPLE 1
PEOPLE CHOOSE.

Elvis Presley is dead. His body was examined by medically trained professionals. An autopsy was performed on his body, and he was buried. Then why would a newspaper sold in supermarkets feature a headline proclaiming ELVIS IS ALIVE: SEEN IN MEMPHIS SUPERMARKET!? Well, it didn't happen by accident. Editors of that newspaper chose to write a false headline! They could have made a decision not to do it and written a different headline.

People make choices every minute, every day. Whom should they talk to? Which clothes should they buy? What do they want to eat? Economists argue that all actions—by individuals or groups—are the result of choices made by individuals. Moreover, economists say, people ***economize*** in their choices. They select the course of action they believe will provide them with the most advantageous combination of benefits and costs. If we understand the costs and benefits that are at stake when choices are made, we can understand and explain unusual behavior.

PRINCIPLE 2
PEOPLE'S CHOICES INVOLVE COSTS.

This principle deals with the consequences of human ***choice***. Choosing actually involves two decisions: choosing and refusing. Choosing is selecting among two or more ***alternatives***. But notice this: By choosing one alternative an individual must give up, or forgo, the other best alternative. The newspaper editors who selected stories about Elvis could have chosen several other headline stories: TALKING DOG RESCUES BABY FROM CAVE, PREGNANT MAN HAS TWINS, SPACE ALIENS VISIT ATLANTA. From the possible alternatives they selected the Elvis headline and gave up their next favorite headline—perhaps TALKING DOG RESCUES BABY FROM CAVE. In using economic reasoning we attempt to understand the decisions people make by looking at the best alternative not chosen. The choice not selected is called the ***opportunity cost***. It is what people give up when they make a choice. In this case the newspaper editors chose the Elvis headline, giving up the talking dog rescue headline. They must have thought the Elvis headline was better than the next best alternative, even though it was inaccurate.

PRINCIPLE 3
PEOPLE RESPOND TO INCENTIVES IN PREDICTABLE WAYS.

Incentives encourage people to act. (Something that discourages people from acting is called a *disincentive*.) A change in incentives usually involves an increase in benefits or a reduction in the cost of actions. When incentives change, the choices people make also change, predictably.

What incentives influence your choices? How hard do you work to prepare for a test if you receive a high grade for answering test questions correctly? Would you work as hard to prepare for the test if all students were to receive the same grade no matter how many questions each answered correctly?

History helps us to understand which incentives have influenced people most strongly at a certain time, and it also shows how incentives have changed over the years. Since changes in incentives influence choices, we can draw reasonable conclusions about the causes of historical events if we know which incentives were influential at the time in question. It is a safe bet that the tabloid newspaper publishers and editors we've referred to were responding to definite incentives when they made their headline decisions about Elvis. Newspaper publishers and editors benefit financially when they sell many newspapers.

PRINCIPLE 4
PEOPLE CREATE ECONOMIC SYSTEMS THAT INFLUENCE INDIVIDUAL CHOICES AND INCENTIVES.

Individual choices are influenced by the rules and customs of the economy of a country. All people must work together to provide goods and services such as food, clothing, shelter, transportation, education, and entertainment. How people work together is governed by written and unwritten rules, and these rules influence personal incentives. For example, laws and contracts are written rules in our economy, while treating customers courteously (the customer is always right) is an unwritten rule. History describes for us the rules and customs of other economies at other times. We are apt to misunderstand the past if we assume that those rules and customs have always been the same.

Newspapers operate within a system of formal and informal rules. One rule is that their success is influenced by the choices their customers make. Customers will buy newspapers that publish interesting news stories. But customers may not always insist that all stories be accurate or truthful. This relationship between the newspaper and its readers helps explain the editors' behavior. They could write, accurately, ELVIS IS DEAD, but many people who are Elvis fans also buy tabloid newspapers and apparently have little interest in reading that Elvis is dead. Even though they know he is dead, however, they seem to enjoy reading stories that say he is alive. And some editors have been happy to give readers the story they are interested in reading. As a result, "Elvis is Alive" stories proliferated in the late 1970s.

PRINCIPLE 5
PEOPLE GAIN WHEN THEY TRADE VOLUNTARILY.

People throughout the world ***trade*** with other people, voluntarily, to gain the goods and services they want. They have done so throughout human history. Why? Because people can improve their situation by trading something they value less for something they value more.

Producers of tabloid newspapers provide stories to the reading public. The reading public gives up money in exchange for the opportunity to read entertaining stories. Readers could be entertained in other ways, of course, but some choose to read these newspapers. The entertainment from the stories is what they gain. The money they spend, which they could have spent on something else (opportunity cost—remember?), is what they give up. The newspaper editors give up their time and energy, which is their cost. The newspaper's income, which is shared with them, is their gain.

Apparently all parties are content with this trading relationship. Consumers make voluntary choices to buy the paper. Because the newspaper sells well, the writers and editors have steady work. Either the consumers or the producers could choose to change their behavior. There is no law requiring tabloid newspapers to print inaccurate stories, nor any law requiring consumers to buy them.

PRINCIPLE 6
PEOPLE'S CHOICES HAVE CONSEQUENCES THAT LIE IN THE FUTURE.

All choices involve risk. We don't know for certain that our choices will work out as we would like them to. The newspaper publishers and editors have no guarantee that the public will buy newspapers telling a misleading story. Producing such newspapers involves a risk on their part. Potential readers might be offended by the deception and refuse to buy the inaccurate paper. Such a reaction might cost the writers and editors their jobs. Moreover, depending on what a false story says, it might make an editor or publisher vulnerable to a costly lawsuit.

A LOOK INTO THE FUTURE

So how will it all turn out? Well, rumor has it that 16 percent of the American public choose to believe that Elvis is still alive. No wonder, then, that newspapers have used Elvis headlines many times since the first such issue, and no wonder that the newer issues continue to sell very well. Elvis may be dead and buried, but his music and legend will live in the bookstores, music stores, and tabloids in grocery checkout lines as long as there is money to be made from the use of his name.

QUESTIONS FOR DISCUSSION

1. Are the editors of tabloid newspapers forced to publish stories that claim Elvis is alive? Are readers forced to read them?

2. What is the *opportunity cost* to editors of printing stories that claim that Elvis is alive?

3. What incentive or reward encourages editors to publish untrue stories about Elvis?

4. What rules operate in the tabloid newspaper business?

5. How do readers and newspaper writers and editors gain, respectively, when trade takes place among them?

6. Will editors continue to publish these untrue stories about Elvis in the future?

ACTIVITY 5

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

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UNIT ONE: LESSON TWO

THE UNITED STATES AND THE GLOBAL ECONOMY

INTRODUCTION

History Beaver hats and other fur products were popular in Europe and the United States in the early 1800s. So were whale products, which were used in manufacturing whale oil and corsets. Trade for furs, fabrics, and whales was once part of a worldwide economic system linking life in the early United States to the life of people in many other parts of the world.

Mystery Why would people who did not know each other, who spoke different languages, who fought wars with each other, who had different cultures, and who lived in different parts of the world be willing to trade with each other?

Economic History Consumers of clothing chose to buy specific fabrics and fashions. This behavior provided incentives to producers to find and use resources that provided fashionable clothing and popular fabrics. To gain rewards by satisfying consumers, producers specialized and traded. Geographic barriers made trade difficult but did not prevent it altogether. Voluntary trade between producers and consumers of clothing created gains and encouraged future economic activity.

CONCEPTS

Economic System
Trade

OBJECTIVES

♦ Examine an economic mystery about world trade in the early 1800s.

♦ Practice economic reasoning by using one or more key assumptions in the *Handy Dandy Guide (HDG)* to formulate hypotheses explaining world trade.

♦ Analyze consumer demand as an incentive that encourages world trade.

LESSON DESCRIPTION

Students discuss an economic mystery and read case studies about fur trading and whaling.

TIME REQUIRED

♦ One class period

One transparency each of Visuals 1, 2, and 3.
One copy for each student of Activities 1 and 2.

PROCEDURE

1. Remind the class that it is easy today to see that we live in a global economy. Notice, for example, where the cars in the school parking lot were made or the countries identified on the manufacturer's label of shirts and sweaters. Students may not know, however, that the United States has participated in a global economy throughout its history.

2. Pose the economic mystery for this lesson by displaying Visual 1 on the overhead projector. Ask the students to speculate about why strangers might choose to cooperate.

3. Display Visual 2, the *Handy Dandy Guide*. Explain that several economic principles might explain the cooperation among strangers in the early 1800s. For example, the people in question are probably responding to incentives (Principle 3), the rules of the economic system probably encourage them to cooperate (Principle 4), and they probably gain from their participation in voluntary trade (Principle 5).

4. Explain to the class that they are going to press further in their investigation of world trade in the 1800s by examining the cases of whalers and fur traders.

5. Distribute Activities 1 and 2. Divide the students into small groups. Ask each group to use economic reasoning and the information in the *Fact Sheets* to predict why whalers and fur traders made the choices they did. Display Visual 2 to remind them of the rules of economic reasoning.

6. Before the groups actually begin work, display Visual 3. Explain what corsets were and that wearing corsets was fashionable during this time.

7. After the groups have completed their work, discuss their responses to the questions in Activity 1. The following are sample responses.

A. Why would anyone become a whaler? (People were willing to pay high prices in exchange for whale products. Whale oil, for example, made excellent lamp fuel. High prices provided an economic incentive to find whales. This opportunity, while it involved very difficult work, was attractive to young men from New England who did not have better economic opportunities.)

B. Why was whalebone used in corsets? (The flexible whalebone was perfect for women's corsets.)

C. Why did whalers from New England search for whales in the Pacific Ocean? (Whales were becoming scarce, but few substitutes existed for products from whales. High prices for whale products provided incentives for far–reaching exploration by owners of whaling ships.)

D. Why did the whaling industry decline? (As whales became scarcer and the costs of finding them increased, prices of whale products increased until eventually they created new incentives for people to seek substitutes for whale products, petroleum, for example.)

8. Discuss the group responses to the questions in Activity 2. The following are sample responses.

A. Why would anyone become a fur trapper? (People in the eastern United States and in Europe were willing to pay high prices for beaver pelts, which were used in manufacturing hats. High prices for beaver pelts provided fur traders with an incentive to find beaver and other furs. This opportunity, which entailed difficult and dangerous work, was attractive to young men who were not able to afford farmland in the East or Midwest.)

B. Why did American fur trappers pose a threat to British trading companies? (The British traded with Native Americans. Increased competition from Americans might reduce their profits.)

C. Why would silk from Asia replace beaver as a material for men's hats (As beaver pelts became scarce and the costs of finding them increased, new incentives developed for people to seek substitutes for beaver, silk from Asia, for example.)

CLOSURE

Review the key ideas of the lesson. Ask: Why do people trade? (Consumers are willing to pay high prices for goods they want. When the rules of the economic system permit trade, prices become incentives to producers, prompting them to produce the goods.)

VISUAL 1
ECONOMIC MYSTERY
WHY DO STRANGERS COOPERATE?

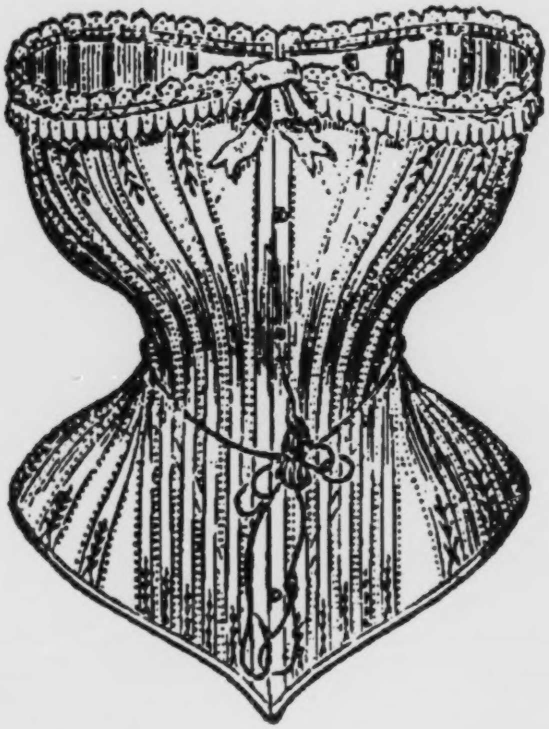
People who lived in the early 1800s did some strange things. Why would people who did not know each other, who spoke different languages, who fought wars with each other, who had different cultures, and who lived in different parts of the world be willing to cooperate with each other through trade?

For example, why might whalers in the North Atlantic, owners of cotton plantations in the southern United States, owners of textile mills in England, trappers in the Rocky Mountains, owners of retail stores in Boston, New York, St. Louis, and London, hatmakers in Europe, and operators of stage lines, railways, and boats moving raw materials be willing to trade with each other when there was no law and no plan that said they must?

VISUAL 2
HANDY DANDY GUIDE (HDG)

1. **People choose.**
2. **People's choices involve costs.**
3. **People respond to incentives in predictable ways.**
4. **People create economic systems that influence individual choices and incentives.**
5. **People gain when they trade voluntarily.**
6. **People's choices have consequences that lie in the future.**

VISUAL 3
A CORSET



From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name____________________

ACTIVITY 1
WHALE OUT

DIRECTIONS

Read *Glimpse of a Whaler's Life* and the *Fact Sheet* that follows. Then return to the questions to write your predictions, being careful to apply economic reasoning. The first answer is provided as an example.

GLIMPSE OF A WHALER'S LIFE

Imagine the life of a whaler. Your ship is away from port for months, maybe years. Fresh food is rare. So is fresh water. Violent storms develop at sea. You have no privacy, work for long periods of time at hard jobs, and will not see family or friends until you return. You could suffer from disease or malnutrition, risk serious or fatal injuries, and live in constant fear of the possibility that your ship will sink in a storm.

QUESTIONS

1. Why would anyone become a whaler?
Prediction: Buyers were willing to pay high prices for whale products. High prices were economic incentives to find whales. While whaling was difficult work, its wages were attractive to young men without better alternatives.

2. Why was whalebone used in corsets?
Prediction:

3. Why did whalers from New England operate in the Pacific Ocean?
Prediction:

4. Why did the whaling industry decline in the mid–1800s?
Prediction:

FACT SHEET

1. Most whalers came from New England in the 1700s or early 1800s.
2. Farmland in New England was fairly easy to obtain in the 1600s but became more expensive after that.
3. Younger sons in New England could not expect to inherit a family farm.
4. In the early 1700s, fishermen in New England discovered that oil from the sperm whale made an excellent lamp fuel. People were willing to pay high prices for whale oil.
5. Petroleum, natural gas, and electricity were developed as fuel sources starting in the mid–to–late 1800s.
6. Factory jobs in New England and elsewhere became commonly available starting in the mid–to–late 1800s.
7. Whaling in the Atlantic Ocean required whalers to spend relatively short times away from a New England home port, but by the late 1800s, it had become difficult to find whales in the Atlantic.
8. The more parts of a whale that a whaler could sell, the more profit the whaler would earn for each whale caught.
9. Whalebone is a flexible material that can take pressure without breaking, much like many modern plastics.
10. Corsets were worn by women who wished to appear fashionable.

Name______________________

ACTIVITY 2
FEELING TRAPPED

DIRECTIONS

Read the following *Glimpse of Trapping and Trading*, and the *Fact Sheet* that follows. Then return to the questions to write your predictions being careful to apply economic reasoning.

GLIMPSE OF TRAPPING AND TRADING

Imagine the life of a fur trapper or trader. You must catch and kill your meals. If you want a roof over your head, you must build it. You will live through winters of bone–chilling cold and raging blizzards, in remote areas. Although you may see Native Americans or other trappers on occasion, you may also live for months without seeing another human being.

QUESTIONS

1. Why would anyone become a fur trapper?
Prediction:

2. Why did American fur trappers pose a threat to British trading companies?
Prediction:

3. Why would silk from Asia replace beaver pelts as a material for men's hats?
Prediction:

FACT SHEET

1. British and French trading companies in the 1700s and early 1800s bartered guns, knives, beads, whiskey, and other manufactured goods for beaver and other fur pelts trapped by Native Americans.
2. By the 1820s, good farmland was available in the East and Midwest regions of the UNITED STATES, but was often expensive.
3. People in Europe and the eastern United States were willing to pay high prices for fashionable hats.
4. Beaver fur can be pressed into a shiny, strong material that holds its shape.
5. American fur trappers received money for the pelts they sold.
6. Hats were made in England and in the United States.
7. In the 1820s, so many beaver lived in the lakes and rivers of the Rocky Mountains that people traveling near the lakes and rivers heard the sharp sound of a beaver's tail hitting water almost every minute.
8. By the 1840s, trappers had captured hundreds of thousands of beaver.
9. Clipper ships were great sailing vessels that could travel from the Atlantic Ocean to the Pacific in months.
10. Silk from Asia can be used to make hats much like those made from beaver.

THE HULA HOOP MARKET OF 1958

INTRODUCTION

History As the U.S. economy grew in the 1950s, people had more leisure time. Some businesses became successful producing products and services designed to be used during leisure time. The Hula Hoop created by Wham–O Manufacturing Company was one example.

Mystery Why would young people risk their time and money to manufacture a product that Americans had never heard of and which served no practical purpose?

Economic History To nearly everyone's surprise, people were willing to produce and consume Hula Hoops in 1958. In a market economy, prices act as incentives to sellers as well as buyers. The anticipation of what seemed then to be a high retail price for Hula Hoops encouraged Richard Knerr and Arthur Melin of Wham–O Manufacturing Company to produce Hula Hoops. Lower anticipated prices would have discouraged production. This relationship is known as the law of supply. Prices also act as incentives to buyers. Higher prices for Hula Hoops would discourage consumers from buying them. Low prices encourage consumers to buy Hula Hoops. This relationship is known as the law of demand. The interaction of sellers and buyers caused the price of Hula Hoops to be relatively high in 1958.

CONCEPTS

Demand
Supply
Market
Price
Incentive
Surplus
Shortage

OBJECTIVES

- ♦ Analyze prices as incentives to producers and consumers
- ♦ Use supply and demand diagrams to examine how setting the market price above or below equilibrium causes shortages or surpluses.

LESSON DESCRIPTION

Students discuss a mystery regarding the manufacture of Hula Hoops. Students examine a series of supply and demand diagrams and use them to explain the production of Hula Hoops in 1958.

TIME REQUIRED

- ♦ One class period

MATERIALS

One transparency each of Visuals 1, 2, 3, and 4.
A Hula Hoop, if you can find one.

PROCEDURE

1. Explain that the purpose of this lesson is to learn about the economics of a popular fad in the 1950s. Tell the class that shorter workweeks and increased income gave many Americans increased leisure time in the 1950s. Some Americans read more books. Some watched the newest television programs like "The Honeymooners," "Ozzie and Harriet," and "Gunsmoke." Many Americans—young and old—used some of their time to play with Hula Hoops.

2. Display Visual 1 and invite students to speculate about the solution to the mystery. If you were able to find one, demonstrate how a Hula Hoop works. Or, ask a student to do the demonstration.

3. Explain to the class that the invention of the Hula Hoop in the 1950s might seem a trivial event. However, millions of Hula Hoops sold from 1958–1959. We can learn a great deal about economic behavior in the past and the present by studying the Hula Hoop market.

4. Tell the class that people in 1958 enjoyed playing with Hula Hoops during their spare time. Some people even competed in Hula Hoop contests to see how long they could keep one spinning. Because people enjoyed the entertainment offered by owning a Hula Hoop, they were willing to pay relatively high prices for Hula Hoops in the late 1950s. In a market economy, ***prices*** act as incentives to buyers and sellers.

5. Explain that Richard Knerr and Arthur Melin of Wham–O Manufacturing Company believed American consumers would choose to buy millions of Hula Hoops. Their reward would be a profit from the sales.

6. Explain how prices served as ***incentives*** (and disincentives) to buyers of Hula Hoops by displaying Visual 2. Direct the students' attention to Point A on the graph and highlight the price ($1.50) and number sold (20 million) at Point A. Explain that higher prices for Hula Hoops would have discouraged buyers from purchasing a large number of Hula Hoops. Direct the students' attention to Point B on the graph and highlight the price ($0.50) and number sold (40 million). Show how lower prices would have encouraged buyers to purchase a greater number of Hula Hoops. This idea that at higher prices buyers would purchase fewer and at lower prices buyers would purchase more is known as the law of ***demand***.

7. Explain that prices in economic history also served as incentives to sellers of Hula Hoops. Prices offered producers opportunities to earn profits. Display Visual 3. Direct the students' attention to Point C on the graph. Explain that higher prices for Hula Hoops ($1.50) would have encouraged producers to produce more Hula Hoops by noting the number (40 million) they would have been willing to sell at this price. Direct the students' attention to Point D on the graph. Show how lower prices would have discouraged producers from producing Hula Hoops by noting the number they would be willing to sell at this price ($0.50). This idea that at high prices producers would produce more and at low prices they would produce fewer is known as the law of ***supply***.

8. Knerr and Melin knew about the laws of demand and supply. How do you think this knowledge influenced their thinking? (No one knew what the price of Hula Hoops should be. Too high a price would discourage buyers. Too low a price would discourage sellers. Knerr and Melin were betting that buyers were willing to pay relatively high prices.)

9. To explain the concept of ***market clearing price***, display Visual 4. Direct the students' attention to Point E. It shows the market clearing price ($1.00) for Hula Hoops in 1958. At this point, the number demanded equals the number supplied. If sellers charged more than $1.00, buyers would not be willing to purchase as many Hula Hoops and a ***surplus*** of Hula Hoops would develop. Illustrate this by tracing a line from any price above the market price to the demand line. Then, trace a line to the number that consumers would purchase at this price and the number producers would produce. At prices above $1.00, producers would produce more Hula Hoops, but consumers would buy fewer. Continue to display Visual 4.

10. If sellers charged less than $1.00, buyers would quickly purchase the number produced and there would be a Hula Hoop ***shortage***. Illustrate this by tracing a line from any price below the market price to the number that producers would produce and the number consumers would buy. At prices below $1.00, consumers would buy up all the Hula Hoops and still want more.

CLOSURE

Point out that this lesson demonstrates how prices are incentives to buyers and sellers. Then introduce a new example: In the early 1990s, some entrepreneurs planned to introduce Hula Hoops in China. But they did not know what price to charge. With this situation in mind, ask the following:

A. How will Chinese buyers react if prices are high? (They will buy fewer Hula Hoops.)

B. How will Chinese buyers act if prices are low? (They will buy more.)

C. How will Chinese sellers act if prices are high? (They will produce or import more.)

D. How will Chinese sellers act if prices are low? (They will produce or import fewer.)

E. What is the market clearing price? (The price where the quantity demanded equals the quantity supplied.)

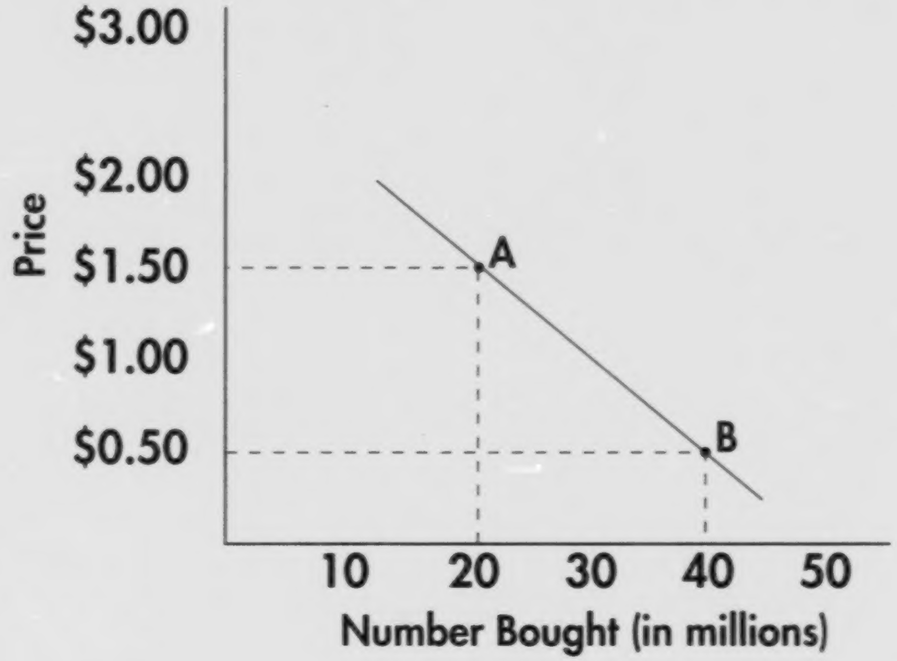
VISUAL 1

THE GREAT HULA HOOP MYSTERY OF 1958

Why would Richard Knerr and Arthur Melin, young people, risk their valuable time and money to mass produce an unfamiliar product that served no practical use, and might even be dangerous? Why would anyone mass produce big hoops of brightly colored polyethylene tubing?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

VISUAL 2
DEMAND FOR HULA HOOPS

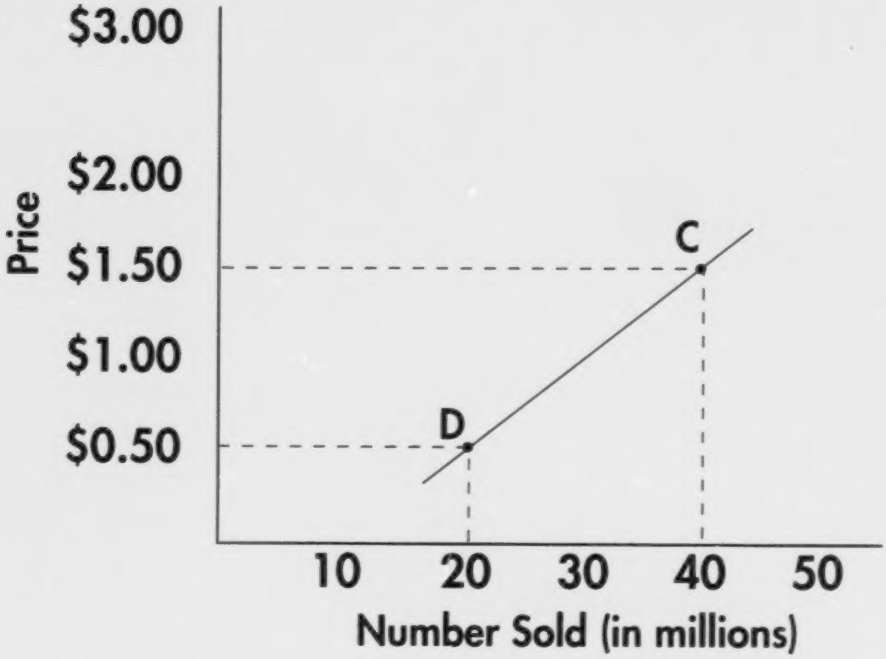


A = PRICE IS A DISINCENTIVE TO BUYERS

B = PRICE IS AN INCENTIVE TO BUYERS

VISUAL 3

SUPPLY OF HULA HOOPS

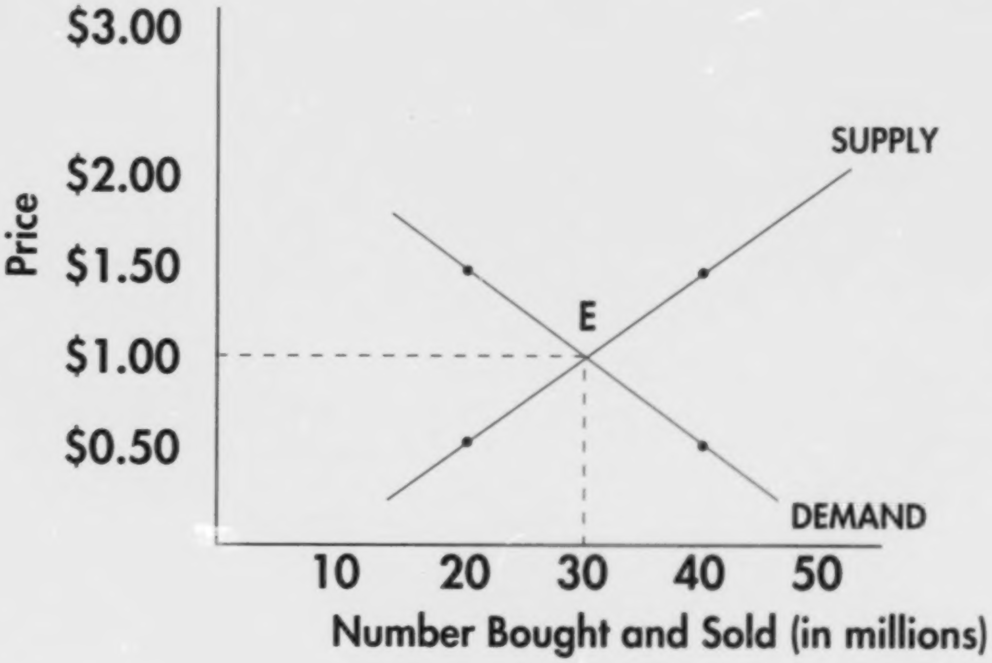


C = PRICE IS AN INCENTIVE TO SELLERS

D = PRICE IS A DISINCENTIVE TO SELLERS

VISUAL 4

MARKET PRICE FOR HULA HOOPS



$1.00 = THE MARKET CLEARING PRICE, WHERE THE QUANTITY DEMANDED EQUALS THE QUANTITY SUPPLIED.

SAMPLE TEST ITEMS

LESSON 1

1. Which of the following statements is not part of the *Handy Dandy Guide*?

   A. All actions involve cost.
   B. Voluntary trade creates gains.
   C. People respond to incentives in predictable ways.
   ✓D. People have no choice over what happens to them.

2. Which of the following actions might discourage newspaper editors from falsely reporting "Elvis Sightings"?

   A. Newsstands order twice the usual number of newspapers if the newspapers feature an Elvis picture and headline.
   ✓B. Sales decline when a newspaper features an Elvis picture and headline.
   C. A lawsuit is filed by the Presley estate asking for $100,000 in damages. Newspaper sales increase by 100 percent as a result of the publicity.
   D. Elvis Presley's birthday becomes an official national holiday.

3. Rap Hammer voluntarily chooses to trade a computer and printer for Madonna Hill's motorcycle. What costs are involved in this trade and which person(s) gained from the trade?

Possible answer: Both people gain from the trade because they value the item they acquired more than the item they gave up. The cost for Rap Hammer was a computer and printer. The cost for Madonna Hill was a motorcycle.

LESSON 2

1. Why do strangers trade goods and services?

   A. Most people enjoy working with strangers.
   B. People like the challenge of working with people who speak a different language.
   ✓C. People hope to gain by trading with strangers.
   D. People cooperate in very random ways which cannot be explained by economic reasoning.

2. Whaling is a dangerous business with high costs. People are at sea for months at a time. Ships are expensive. Why did whalers put up with these high costs of production?

   A. Whalers are all adventurous people who like to risk their lives.
   ✓B. Customers want whalebone to make corsets and are willing to pay whalers to provide whalebone.
   C. Whalers have no other job skills, so they must hunt whales for a living.
   D. Whalers are required by law to hunt whales.

3. Which of the following clues indicate why customers switched from buying beaver hats and began buying silk hats?

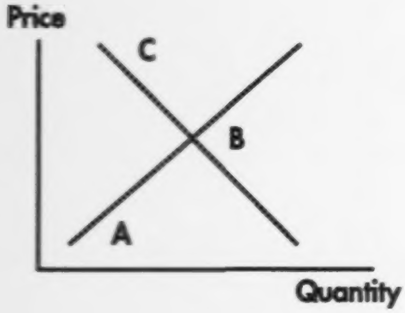
   ✓A. The price of silk hats was lower than the price of beaver hats.
   B. All the beaver were killed by trappers, so hat producers no longer made beaver hats.
   C. Silk appealed to customers because international trade was involved in the production of hats.
   D. Silk is produced by worms.

4. Use two or more HDG statements to explain why petroleum producers helped save whales from extinction during the late 1800s.

Possible answer: Petroleum can be used as a substitute for whale products. Since petroleum was less costly to produce and easier to find than whales were, its price was lower than whale oil, so customers and producers of energy turned to the use of petroleum products and away from whale-based energy products. As costs were reduced (*HDG* 2), people responded to the lower price which resulted as an incentive to change their energy use behavior (*HDG* 3).

LESSON 3

1. Imagine these scenes. The year is 1958. Yesterday you walked past a store window attracting very few customers. Today that same store has a large sign in the window that reads: HULA HOOPS ON SALE: LOWEST PRICE IN TOWN. Many customers are lined up, buying Hula Hoops. This is an example of what principle?
   - A. Strength
   - B. The law of supply.
   - C. An externality.
   - ✓D. The law of demand.



2. The market clearing price is best described as
   - A. The price which is too high for the average consumer.
   - ✓B. The price that equates the quantities suppliers and demanders are willing and able to buy.
   - C. The low price that clears the market of goods and services, causing a shortage.
   - D. The high price that causes a surplus.

3. Which point on the following graph is located on the supply curve?
   - ✓A. Point A
   - B. Point B
   - C. Point C

4. In a market economy, prices are established by:
   - ✓A. Sellers and buyers as they respond to incentives.
   - B. Sellers as they respond to incentives.
   - C. Buyers as they respond to incentives.
   - D. Government officials as they respond to incentives.

THE HOMESTEADERS

UNIT 2 PROVIDES AN analysis of the Homestead Act of 1862. Under this legislation, the U.S. government gave away 2.5 million acres of land in the public domain to 15,000 settlers. This unit addresses the costs and benefits of this legislation. Moreover, students apply an economic way of thinking to analyze the behavior of politicians and voters.

Lesson 1 uses an activity for earning top grades to illustrate alternative allocation systems which can be used to distribute scarce goods. The analysis of allocating grades is then linked to the Homestead Act of 1862. Giving land away to settlers was the allocation system approved by the federal government.

Lesson 2 follows up on the activity in Lesson 1. Students are invited to solve an economic mystery: Is free land a good deal? By examining five different homestead sites, the students analyze the Homestead Act in light of the economic principle that people's choices involve cost.

Lesson 3 poses another economic mystery: Why would Congress and the President approve legislation which would cause conflict with Native Americans, encourage the settlement of what often was poor land, and gain no revenue for the government? Students apply economic reasoning to the political process. They learn how bad economics can sometimes be good politics.

FREE *A* GRADES: THE CONSEQUENCES OF CHANGING ALLOCATION PLANS

INTRODUCTION

History Under the Homestead Act of 1862, the U.S. government gave away 2.5 million acres of land in the public domain to 15,000 settlers.

Economic History The Homestead Act was an example of a unique American allocation scheme whereby public land was given free of monetary charge to citizens. Deciding how to allocate scarce resources has been an unavoidable issue throughout human history. Failure to solve this problem to people's satisfaction has led to many social and political conflicts in the American past. This lesson teaches students to recognize how an allocation plan creates opportunity costs and incentives which influence, in predictable ways, changes in individual choices.

Please Note: Lessons 1 and 2 in Unit 2 should be used in sequence. They are not intended as independent lessons.

CONCEPTS

Opportunity Cost
Incentives
Choices
Allocation

OBJECTIVES

♦ Evaluate allocation plans for the distribution of scarce goods.

♦ Identify opportunity costs and incentives involved in each allocation plan.

♦ Predict changes in behavior as a consequence of various allocation plans.

LESSON DESCRIPTION

Students are given three different allocation plans to distribute more *A* grades in the class. They analyze each plan, identify the relative costs and benefits, and predict how implementation of each plan might change individual student behavior.

TIME REQUIRED

♦ One class period

MATERIALS

One copy for each student of Activities 1 and 2.

Pages from a U.S. history textbook on the Homestead Act of 1862.

PROCEDURE

1. Explain to the class that the purpose of this lesson is to examine decisions about how resources are allocated, and eventually to apply this understanding to an analysis of the Homestead Act of 1862. In school, grades are usually allocated on the basis of performance on assignments and tests. In the U.S. economy, products are allocated on the basis of price. An analysis of the allocation of land under the Homestead Act will help you understand some seemingly unusual historical behavior.

2. Explain to students that parents, school board members, and the school district superintendent have decided that student performance in this school is below par. Teachers must do a better job of improving student performance. Grades are a measure of student performance. Teachers will not receive a salary increase in the next year unless their classes average 50% grades of *A*. Explain that since you would like a salary increase next year, you (the teacher) want students to obtain more *A* grades.

3. You have devised three new grading systems to increase the number of *A* grades. Also, any student currently receiving an *A* should not be concerned. Students can still receive an *A* the old fashioned way, by earning it. These plans are intended only to increase the total number of *A* grades.

4. Distribute Activity 1. Ask the class to read it carefully.

5. Ask the students to predict the likely consequences of each plan in Activity 1. What are the costs and benefits of each plan? Would any unintended or unusual consequences be likely to follow from using the plans?

Possible Answers:

Plan 1

Positive consequences: Encourages promptness, attentiveness, and consistent behavior.

Negative consequences: Discriminates against students coming to school from afar; encourages students to leave other classes early; creates lines in the hall; encourages pushing, shoving, and running to front row seats.

Unusual outcomes: Encourages students uninterested in U.S. History to sit in the front row; encourages students to substitute promptness and seat location for studying American History.

Plan 2

Positive consequences: Rewards writing skills; develops rapport between teachers and students.

Negative consequences: Discriminates against nonwriters; encourages students to lie about their evaluation of the teacher; discriminates against the honest student who doesn't like the teacher.

Unusual outcomes: Encourages students who don't like the teacher to make false statements; encourages students to spend less time learning U.S. History and more time praising the teacher.

Plan 3

Positive consequences: Encourages creative dress, as students receive recognition for their creativity in fashion.

Negative consequences: Encourages less time studying U.S. History. Students get recognition for what they wear rather than for what they learn.

Unusual outcomes: Encourages students who pay little attention to their choice of clothes to become very clothes–conscious. Students will become less aware of events in American History and more aware of clothing styles.

6. Announce that you have selected Plan 3 because it is easily implemented and requires little monetary cost to the students. Tell the class that they will have a quiz on the Homestead Act tomorrow. Assign the appropriate pages from the textbook as material to study to prepare for the quiz.

7. Begin the next class by asking which students wish to receive their grades based on dress and which wish to receive their grades based on the test score.

8. Ask students to vote on the most creatively dressed students and select 10 students to receive *A* grades.

9. Distribute Activity 2 to all students. Ask the students to complete the quiz and correct it in class. (The correct answers are 1. T, 2. F, 3. F, 4. F, 5. F, 6. F, 7. D, 8. B, 9. C, 10. D.)

10. Ask the creatively dressed students if they studied for the test and if they tried to get all the questions right on the quiz. They probably did neither.

11. Find out if any students who usually get grades of *A* decided to use the dress option rather than the studying option to get their grade on this test.

12. Ask both groups of students referred to in the last two questions to explain their behavior in terms of expected costs and expected benefits.

13. Ask students if the clothing–related *A* grades were free. (No. The opportunity cost of clothes preparation makes these grades costly even though no money is paid for them.)

CLOSURE

Remind the class that they are experimenting with rankings based on dress as an allocation device. They have observed that using different allocation systems can change people's behavior. In the U.S. economy, we use prices as the primary device for allocating products. In 1862, however, the U.S. Congress experimented with a different allocation system by passing the Homestead Act. This Act offered full ownership of 160 acres of land to homesteaders if they agreed to live on and develop the land for five years. *Ask:*

A. Which people do you think are most likely to benefit from free land? (People who may wish to work but are without the resources necessary to make a down payment on a farm loan; people with bad debts to whom banks refuse credit.)

B. What costs might such people face? (Homesteaders would have to pay for transportation and equipment. Moreover, many would not have a working knowledge of farming techniques which would work best in the West. There was a strong chance of failure on a "free" farm.)

Name____________________

ACTIVITY 1
ALLOCATION PLANS FOR MORE *A*s

The following are three alternative allocation plans for awarding grades. As you read each, predict the positive, negative, and unusual consequences it might bring about.

PLAN 1 FIRST COME, FRONT ROW

The first 10 students to arrive at class and sit in the front 10 seats will get one credit toward an *A* on the next quiz. Students must accumulate 10 credits before they receive an *A* on a quiz. No grade changes occur for fewer than 10 credits. In other words, there are no benefits for sitting in the front seats two or three times and then changing back to other seats.

PLAN 2 SAY THE RIGHT THING

Students who write the best two-page essays to the school board praising the U.S. history teacher's work and recommending a raise for that teacher will be considered for an *A*. The teacher will choose the 10 best essays. If the best essays are not of high enough quality to be sent to the school board, the students will not receive *A*s.

PLAN 3 DRESS FOR SUCCESS

Students who display the most creative mode of dress each Friday will receive an *A* on that Friday's quiz. The most creatively dressed students will be chosen by secret ballot by students and teacher. The teacher has veto power over any selection and may automatically exercise the veto power if a student's dress is offensive to school authorities.

Name_______________________

ACTIVITY 2
THE HOMESTEAD ACT QUIZ

TRUE OR FALSE

____1. The Homestead Act was passed in 1862 during the Civil War.

____2. The Homestead Act provided 40 acres and a mule free to every former slave.

____3. The Homestead Act provided funds to pay ranchers and Native Americans for the land taken by homesteaders.

____4. The Homestead Act provided farmland to individuals at no cost to those individuals.

____5. The land provided to settlers by the Homestead Act was a small area in Texas.

____6. The Homestead Act reduced settlers' incentives to move west by eliminating the money cost of acquiring land.

MULTIPLE CHOICE

____7. Which of the following people who would not have owned land otherwise are most likely to own land as a result of the Homestead Act?
- a. A southern land owner with share-cropping arrangements with former slaves
- b. A railroad conductor
- c. A worker in a textile factory
- d. A farm worker who lacks the down payment for a farm loan

____8. Which political party favored passing the Homestead Act?
- a. Democratic
- b. Republican
- c. Know–Nothing
- d. Whig

____9. Which answer best explains why people chose to homestead land in the West?
- a. They had no choice; there was no room in the East and South.
- b. Settlers were lured west by false promises of free land.
- c. The costs of settling in the West were reduced by the Homestead Act.
- d. There was no risk involved in raising crops in the fertile western lands.

____10. Which of the following groups directly benefited from the Homestead Act?
- a. New England factory workers
- b. Western ranchers
- c. Native Americans
- d. None of the above

WAS FREE LAND A GOOD DEAL?

INTRODUCTION

History The Homestead Act of 1862 provided ownership of 160 acres of land in the West to anyone who lived on and developed the land for five years. This legislation gave land to U.S. citizens from a seemingly unlimited quantity of publicly owned land.

Mystery From 1863 to 1872, ten times as many acres were sold by the federal government for cash as were homesteaded. Why would farmers choose land they had to pay for over free land?

Reasoning Cost influenced the choices made by homesteaders. Even though the allocation plan provided in the Homestead Act offered new land which could be acquired without payment, it was not free. The usable land was a scarce resource already being used by Native Americans, ranchers, and trappers. Land that seemed to be free sometimes had higher total costs than land for which farmers paid.

CONCEPTS

Cost
Total Costs
Competition
Scarce Resources

OBJECTIVES

♦ Identify costs of a decision to homestead in the West.

♦ Compare the expected costs and expected benefits of five different farm sites.

♦ Identify competing uses of the land by different individuals.

♦ Choose a homestead site based on an evaluation of expected costs and benefits.

LESSON DESCRIPTION

Students will work in small groups to investigate the consequences of settling on free land in the western United States during the late 1800s. This work is followed by a class discussion in which students explain their choices, using economic reasoning.

TIME REQUIRED

♦ One class period

MATERIALS

One copy for each student of Activity 1.

One transparency of Visual 1. Students may wish to refer to a wall map of the western United States.

PROCEDURE

1. Explain that the purpose of this lesson is to help students understand the mysterious behavior of most homesteaders in the 1860s. Display Visual 1 to the class. Ask them to consider why farmers, who are intelligent people, would choose to pay the government and the railroads for farmland at a time when the government was allocating 160–acre parcels of free land to anyone who would live on it. How might economic reasoning help us to solve this mystery?

2. Review the principle of economic reasoning that people's choices involve costs. Explain that the Homestead Act was passed by Congress in 1862. It called for an unusual means to allocate land. Individuals could own land without paying money for it. Your task is to investigate how this new system influenced individual choices. One choice, in particular, may seem odd, but it represented the preferred choice of many. Many farmers, for example, refused to accept offers of free land. They bought land instead. Why would they choose to do that?

3. Divide the students into small groups. Distribute Activity 1. Ask the groups to read Activity 1. Then they should use the information in Activity 1 to choose a farming site—either a homestead site or a site purchased from the railroad. They might also wish to refer to wall maps of the western United States.

4. After students make their choice, ask the groups to discuss the following questions:

A. How did the Homestead Act influence the choices of individuals to settle in the West? (Reduced the costs of settlement.)

B. What was the major cost of your decisions? (Encourage the students to name their next best alternative.)

C. Was the land free? (No. To get it, settlers had to give up their next best alternative; they also had to pay moving costs; and staying for five years was also a cost.)

D. Would your decision have been different if you had $2,000 in savings? (Many students then would have chosen land being sold by the railroad because of its many advantages, such as access to transportation, proximity to a town, and fertility of the soil.)

E. Was some of the land too costly to homestead? (Yes, for any of the groups who preferred to remain where they were instead of moving to a homestead area.)

F. Would you have to compete with anyone or anything else to use your free land? (Yes. The land was already being used by Native Americans, ranchers, miners, trappers, and wild animals, including buffalo, wolves, and coyotes, not to mention mosquitoes, flies, ants, bees, and grasshoppers.)

CLOSURE

Review the point of this lesson which is that people's choices involve costs, even when they appear not to. Many farmers rejected as too costly the "free" land offered by the federal government. Instead, they chose to pay for land that had a lower total cost. Ask the students to practice their reasoning by using a current example. Explain that many cities recently have experimented with urban homesteading. The urban homestead idea offers an abandoned home owned by the government in high crime areas for sale to a homesteader for $1, provided that she or he agrees to live in and rehabilitate the property. *Ask:*

A. Predict how this allocation system for urban houses might change people's behavior. (This allocation system will attract people without cash resources but with skills as fixer–uppers and people willing to risk living in high–risk neighborhoods.)

B. What would be the opportunity cost to the homesteader? (Alternative housing not taken.)

C. What expenses would the homesteader face? (The cost of fixing up abandoned homes may be very high. For example, loans may be needed just to purchase materials. Some repairs may require professional assistance.)

D. When might the price of $1.00 for an urban home be too high? (Even if the purchase price is only $1.00, the cost of restoring the home, and paying taxes on it, may exceed its value to a prospective urban homesteader. These costs may tell us why the home was abandoned in the first place.)

VISUAL 1

ECONOMIC MYSTERY

IS FREE LAND A GOOD DEAL?

In 1862, the U.S. Congress passed the Homestead Act. It provided 160 acres *free* to a homesteader who lived on and developed that land for five years. Yet, farmers often paid cash for other parcels of land rather than accept the homestead offer.

From 1863 to 1872, the federal government sold ten times more acres than it gave away to homesteaders. And farmers bought high–priced land from the railroads more often than they accepted land from the U.S government.

Why would farmers refuse free land? Why would they prefer expensive land to cheap land?

Name______________________

ACTIVITY 1
IS FREE LAND A GOOD DEAL?

IMAGINE THAT IT IS 1866. YOU CURRENTLY live on a small family farm in Illinois with your spouse and two children. But the farm belongs to your father, and you will not inherit it; your older brother will. That is the way these decisions are made in your family. You do not have enough cash to buy a farm in your area. You have only $750 you can use to buy land or move to another area. You have heard of the Homestead Act that was passed in 1862 as part of the Republican Party's plan for America's future. You find this idea of the Homestead Act very appealing—it offers full ownership of 160 acres to a homesteader, if the homesteader will live on and develop the land for five years.

You have also heard that railroads are selling farmland which is close to the track being laid across the country. You have sent for information on Homestead and railroad land, and you have ordered some maps to help you locate the new opportunities.

Outlined below are five sites that might represent good opportunities for you and your family. Which site would be your first choice? What would be the costs to obtain and develop each site? Or would you prefer to stay in Illinois and work the family farm with your older brother? Use the principles in the *Handy Dandy Guide (HDG)* to help explain your choice.

Consider the following factors as you make your choice.

1. How far must you travel? If you travel by horse and wagon, each mile will cost something in time, in physical wear and tear on the horses, and in food to support you and the horses as you travel. If you travel by train, you will have to pay ticket prices, with prices increasing as distances increase.

2. What will you be able to grow on the land? If you can grow vegetables or fruits, 160 acres will probably produce a large enough crop at current prices to enable you to make a living. If you grow wheat, which tends to sell for a lower price, you will not earn enough from 160 acres to make a living. If you decide to raise livestock, you may need more land to graze the animals.

3. How ready is the land for cultivation? Is the soil rocky, or infertile? Is water available or will irrigation be needed? How feasible will it be to irrigate, if that is needed? Is the terrain flat and easy to plow, or hilly and rugged?

4. How will you obtain supplies? You will need seeds, tools and medicines, some food (especially if the soil is poor and difficult to cultivate for vegetables and fruit), and other basic materials. How far away is the nearest town? How much time and effort will you have to expend to get there?

5. How will you get your crop to market? Can you sell it locally, to residents in a nearby city? Will you sell it to a middle–merchant (for example, a flour miller or stockyard) in the distant city? Can you ship the crop a long distance? Where is the nearest railroad?

6. What are the personal costs involved? How far are you from a church, a school, neighbors? You must live on the land for five years. Will you be able to last that long? Do you want to?

7. What is the competition for this land? Will you be able to get to it before other homesteaders claim it? Will the previous users of the land (ranchers, Native Americans, wild animals, insects) accept you?

Site One, Homestead Opportunity:
160 acres in eastern Nebraska, within 60 miles of the Iowa border.

1. This parcel has a small, spring–fed stream running across one corner of the property; the land has about 10 acres of deciduous forest.

2. A village of 60 people is located 6 miles away; it was established five years ago, has a small school building and a public meetinghouse used for church services; it also has a general agricultural supplies store.

Site Two, Homestead Opportunity:
160 acres in northeastern Montana, roughly 100 miles west of the North Dakota border.

1. This property includes several natural pits that collect water during the spring thaw, and they generally do not dry out until mid-to-late summer. A tributary of the Missouri River runs within 10 miles. The land is covered with grass and brush.

2. A trading post is located 17 miles away. It is not always open, but it does order and supply many materials. The nearest village is about 50 miles away and has a population of 40 people.

Site Three, Homestead Opportunity:
160 acres in southern Idaho, about 30 miles from the Nevada border.

1. The Snake River is about 40 miles away, and there are several creekbeds within 10 miles that become full during rainy periods (feeding into the Snake). The land is covered with grass and brush, and it is very stony.

2. The Oregon Trail passes within 50 miles, and a few homesteads are spotted in a 20-mile radius. A trading post is located on the Snake River. The nearest village, located 25 miles away, has a population of 30 people.

Site Four, Homestead Opportunity:
160 acres in western Washington, within 10 miles of Puget Sound.

1. Two small streams run through the property, one of which becomes a forceful tributary of a nearby river during rainy periods. About 35 acres are marsh throughout the year, and another 35 acres are marshy during the winter and spring. About 130 acres are covered by an evergreen forest.

2. A few homesteads are scattered within a 10-mile radius. The nearest village is 15 miles away and has a population of 45 people.

Site Five, Railroad Company Property:
80 acres in western Iowa, within 2 miles of a railroad junction.

1. The property is offered by a railroad with routes to Chicago and to other eastern cities. A railroad with routes to Minneapolis and St. Paul passes within 2 miles.

2. Asking price is $12 per acre, which is expensive for railroad land. This price reflects the high demand for the property which is located near *two* railroad lines.

3. The area has several dozen existing and developed farms, mostly raising hogs and corn. A stream runs through the property, and the land is gently rolling grassland, with some small groves of deciduous trees. A small town (250 people) exists at the railroad junction. Several villages of 20–50 people are scattered in a 25-mile radius from the site. The property can be purchased on credit, for a 2-year or 10-year period. A down payment of $400 is required in either case. Monthly payments of $50 (2-year plan) or twice a year payments of $150 (10-year plan) will follow. For this small piece of land, the 2-year plan will be easiest to obtain from the railroad.

QUESTIONS FOR DISCUSSION

1. Which site would you choose? Why?

2. Which site would be your second choice? Why?

WHY GIVE AWAY LAND?

INTRODUCTION

History During the Civil War, Congress was controlled by the Republican Party, which had promised free land in the West for settlers who wished to move there and agreed to stay on the land for five years. To European peasants interested in emigration and to many U.S. citizens it was a dream come true. Anyone could be a landowner.

Mystery The U.S. Congress and President Lincoln knew that promising free land to settlers would cause conflicts with Native Americans and encourage the settling of some land poorly suited to agriculture. Why did they approve this land allocation system when they knew serious problems would result?

Economic History This lesson challenges students to apply economic reasoning to the political process. Why would political parties provide legislation to benefit special groups? The Homestead Act of 1862 was a popular government action for many voters even though it was an inefficient means of distributing land among competing groups. The net positive effect of costs and benefits to politicians favored the passage of this legislation. What may have been bad economic policy was good politics in this instance.

CONCEPTS

Economize
Expected Costs
Expected Benefits

OBJECTIVES

♦ Discuss the expected costs and benefits to politicians of providing free land to citizens.

♦ Predict which voter groups would favor the Homestead Act and which voter groups would oppose it.

LESSON DESCRIPTION

Students will read a short description of the Republican Party's platform, listen to a teacher-led presentation of economizing behavior as practiced in politics, and predict which voters might favor the Homestead Act.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1, 2, and 3.
One copy for each student of Activity 1.

PROCEDURE

1. Explain that the purpose of this lesson is to investigate why the U.S. Congress passed and President Lincoln signed the Homestead Act of 1862.

2. Display Visual 1. Invite students to use economic reasoning to explain why Congress and the President would favor passage of such legislation. Review principle 1 of the *Handy Dandy Guide*: **People make choices.** Somehow the combination of cost and benefits must have favored passing such legislation. How can this be explained?

3. Display Visual 2. Explain that political leaders, like other people, make economizing choices. An important benefit to a politician is winning election to public office. Candidates for office may make promises to voters in order to gain support and improve their chances to win the election.

4. Display Visual 3. Explain that voters often respond to promises by judging the anticipated benefits compared to the anticipated costs. A voter wonders, "What can a candidate do for me, and what will it cost?"

5. Explain that people often use the political process as a means of obtaining special favors or benefits.

6. Distribute Activity 1. Ask students to read the descriptions of different voters and infer which ones would be likely to support the Homestead Act and which ones would be likely to oppose it. Encourage the students to explain how voters were striving to choose the most advantageous combination of benefits and costs.

Answers to Activity 1

Individuals 3, 5, and 6 fit the backgrounds of those Americans most strongly in favor of Republican policies in the 1860s. Individuals 1 and 2 do not fit. They probably would have little to gain from the Homestead Act. Individual 4 might be a Republican, but he could also be a Democrat—students might note that he will profit if western development flourishes, since larger markets will open for his product. However, Individual 4 might find it more difficult to locate workers for his factory if homesteading becomes very attractive to his potential employees. Since he is a relative newcomer to business, he may feel that the Republican approach is best; it was often favored by entrepreneurs and small business owners, who believed the Republican program of internal improvements would benefit business over the long term.

Note: All the profiles depict men because women were not allowed to vote at this time.

CLOSURE

Explain to the class that this lesson applies economic reasoning to the analysis of political behavior. It demonstrates how an economic policy—giving away land—can be enacted even though it may on average have poor consequences. Politicians, in competition for votes, have incentives to make promises which benefit special groups who are seeking favors from government.

Pose the following questions to the class.

A. Which groups of voters would tend to gain from the passage of the Homestead Act of 1862? (Voters with farming knowledge, who live near the West, and would not inherit a family farm or business.)

B. Which groups would tend to lose from the passage of the Homestead Act of 1862? (Native Americans were harmed and Southerners gained little from the passage of the Homestead Act. Native Americans could not vote. Similarly,

VISUAL 1

ECONOMIC MYSTERY THE CASE OF THE HOMESTEAD ACT OF 1862

Why would the U.S. Congress and President Lincoln approve legislation which they knew would cause many problems? The problems included the following:

Conflict with Native Americans

Settlement on land poorly suited for agriculture

Loss of potential revenue for the U.S. government

VISUAL 2

POLITICAL ECONOMIZING BEHAVIOR

GOAL OF A POLITICAL CANDIDATE

Win the election.

STRATEGY

Decide what are the potential benefits your voters are seeking.

Make promises that will attract the greatest number of voters when competing for scarce votes.

VISUAL 3

VOTERS' ECONOMIZING BEHAVIOR

GOALS OF VOTERS

Gain the greatest potential benefits from political candidates running for office.

STRATEGY

Identify from among the competing candidates those office seekers whose policies you believe will provide you with the greatest potential benefits at the lowest potential cost.

Name______________________

ACTIVITY 1
WHO FAVORED THE HOMESTEAD ACT?

WE KNOW THAT ABRAHAM LINCOLN'S Republican Party supported the Homestead Act in 1862, but what kinds of people supported the Republican Party? If economizing behavior does influence voting decisions, if people do use their votes to select the party or candidates that offer them rewards, then we should be able to infer that at least some of the people who would have supported the Republican Party in the 1860s would be the same people who believed that the Homestead Act offered them economic opportunity.

Below is a list of hints that provide some additional information about homesteading and economic opportunities in the 1860s. Following the list are profiles of different types of Americans. After looking carefully at the hints, read the profiles and choose the individual(s) that you believe were probable supporters of the Republican Party in the 1860s.

HINTS

1. It took about $1,000 at a minimum to establish a farm of 160 acres in the late 1800s (land not included).

2. Although differences in climate and soil between the West and the East meant that farming skills had to be altered for farming in the West, basic knowledge of farming was an important asset for a homesteader.

3. The farther a homesteader had to travel from a starting point, the more it cost to get there.

4. Homesteading was hard work, but homesteaders were their own bosses.

5. Land could be purchased for farm use in the Midwest and East in the 1860s, but it was expensive relative to western land.

6. Family-owned farms in the Midwest and East were usually passed from father to eldest son; since most families had four to five children, younger sons usually did not inherit farms.

7. Homesteaders often lived in isolated circumstances, far from neighbors or towns.

8. Homesteaders grew cash crops, like wheat, that were harvested and sold through middlemen to flour mills and other producers.

9. Many Americans in the mid-1800s believed that an agricultural economy was the best partner for democracy, since farmers owned their own land and had an "investment" in protecting the nation.

10. Many Americans believed that farming and rural life formed a strong foundation for traditional habits of hard work, frugality, and independence.

11. Because the nation's cities were growing in population and factories were expanding, some Americans worried in the mid-1800s about a decline in traditional moral values and habits.

INDIVIDUAL PROFILES

Profile 1:

Mr. Beauregard owns a plantation of 500 acres in Alabama. Before the Civil War, he raised cotton with the labor of 30 slaves. After the Civil War, he divided his land into sections and leased the sections to tenant farmers. His family has owned the land since the 1820s. He is 59, married, with four adult children.

Profile 2:

Mr. Connell moved to the United States from Ireland in 1847. He works in Boston, loading cargo onto ships. There is a large community of Irish-Americans in Boston, and he spends what little free time he has with friends and family. He also attends a Roman Catholic church in Boston on a regular basis. He is married, 35, and has five children.

Profile 3:

Mr. Williams works as a farmhand in Indiana, on property owned by his older brother. They

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

raise pigs and corn and sell their products to a buyer from Chicago. His grandfather claimed the farm in the 1820s and bought it from the U.S. government in 1845. Mr. Williams is 23, married, and has two children.

Profile 4:

Mr. Alberts owns a shoe factory in New Jersey. He employs 35 workers and has expanded operations twice in the past 15 years. He hopes to expand again, if the market for shoes grows. He hires mostly women and immigrants but has some native-born men working in supervisory jobs. He is 48, widowed, and has three adult children.

Profile 5:

Pastor Reynolds presides over a small Protestant church in New York state. His congregation consists of many farmers and residents of the small town in which the church is located. He preached strongly against slavery and also spoke out against immoral behavior in the big cities. His father was a farmer in New York state. He is 44, married, and has four children.

Profile 6:

Mr. Clinton is a shipping clerk for a railroad that has routes in Illinois, Missouri, and Wisconsin. He works in the railroad's Chicago office. He moved to Chicago from Connecticut in 1855. He hopes to advance to the level of office manager in a few years. He is 32, married, and has three children.

SAMPLE TEST ITEMS

LESSON 1

1. If you perform certain tasks well, you can earn an *A* grade. You want to earn an *A*, so you work hard on those tasks. For you, the offer of an *A* grade is:

A. A cost.
✓B. An incentive.
C. Wealth.
D. An allocation plan

2. Allocation is the process of distributing resources. Suppose that three people are trapped on a desert island. They know that a ship will pass by in four weeks, close enough to see and rescue them. But they have only enough food for two people to live four weeks. Describe two different allocation plans the people could create, giving incentives and costs of each plan.

Possible answers: Students' answers will vary, but most likely they will see two obvious plans:

A. One person is chosen not to eat; two can eat, and they will survive.
   Incentives: For two of the three, survival; for one, the chance to be a dead hero.
   Costs: One person dies. Two survivors may experience guilt, sorrow, etc. Violent disagreement may occur, causing more than one death

B. All three eat equal amounts and all die
   Incentive: No one will feel he or she has killed another person; all may feel that they have acted as fairly as possible. No need to decide who will not eat.
   Costs: All three die.

3. In U.S. history, we've had allocation plans for distributing farmland and irrigation water, but we have not had a plan for distributing sunlight, an essential resource for farmers. Why not?

Possible answer: No easy way to control its distribution; available to all, sunlight is not scarce.

4. Can you think of any reasons why such an allocation plan may be necessary in the future?

Possible answer: Generally speaking, students' responses should suggest that such plans may be developed if means are developed to control the distribution of sunlight (for example, huge "shades" to block harmful ultraviolet rays—sunlight); or if sunlight becomes scarce (pollution screens the sun; means are established for periodically blowing away the smog to let the sun through).

LESSON 2

1. Imagine that the U.S. government decides that next year it will give each of 50 Americans a homestead site—160 acres of land, anywhere the homesteader chooses! The government will collect applications in a bin and pull out 50 winners at random. The sites described will absolutely be given to those 50 winners, regardless of who owns the sites.

Fill out the application that YOU would submit. Describe the site you want and why you would choose it; list rewards and costs.

Possible answer: Students should be able to fit rewards and costs appropriately to sites; for example, a student choosing 160 acres now occupied by Disney World will own a lucrative enterprise (BENEFIT) but have the many problems of managing it (COSTS).

2. List three factors a potential homesteader would probably have considered when choosing a homestead site in 1866.

Possible answer: Possibilities include distance to travel, what could be grown on the land, suitability of the land for cultivation, and the availability of supplies.

3. Suppose you saw a television advertisement offering a FREE diamond necklace. An 1–800 number is listed, and you call. You learn that, to get the necklace, you must go to a summer resort 300 miles from your home, on a Friday afternoon, and listen to a three–hour presentation about home sites that people at the resort want you to buy. When the presentation is over, you get the necklace. What is the cost of this "free" necklace?

Possible answer: The price of gas to travel 600 miles and the wear and tear on your car. The loss of work or school time.

4. Which would be cheaper, the FREE necklace or one you could buy for $50 at a local discount store?

Possible answer: Probably the $50 necklace, given the costs for obtaining the FREE one.

LESSON 3

1. A. Use economic reasoning to explain the probable goal of Republican voters regarding the future allocation of western lands by the federal government.
   Possible answer: They wanted land allocated at a price affordable by working people—cheap, or free of monetary payments.

   B. What promise regarding land allocation might have been made by Republican candidates who wanted to win by appealing to voters interested in western land?
   Possible answer: Legislation will be passed allocating western lands for little or no monetary payment.

   C. What federal law regarding land allocation passed in 1862 after many Republicans won election to Congress? (The Homestead Act.)

2. In the 1950s and early 1960s, very few African Americans were registered to vote in the South. Most European Americans were registered to vote and preferred to live in a racially segregated society. With this knowledge, describe the promises some politicians may have made to voters as the federal government began to support racial integration on a gradual basis.

Possible answer: Students should be able to describe promises reflecting some politicians' pledges to maintain segregation and resist federal efforts at integration. A supplement for discussion of their answers would be actual campaign pledges from the era, such as George Wallace's "Segregation Now, Segregation Tomorrow, Segregation Forever." Students might also describe promises made by politicians eager to gain support among newly enfranchised African American voters.

3. Who among the following groups probably did *not* believe that the Homestead Act should be passed? For each group that you think would be unwilling to support the Homestead Act, list the *costs* such groups probably anticipated.

   A. Farmworkers in Ohio. (Would support.)
   B. Slave–owners. (Would not support: Costs: slavery crowded out in the West by free settlers.)
   C. Native Americans living on the Great Plains. (Would not support: *Costs:* rapid settlement of the West by whites would cause loss of land.)
   D. Protestant ministers in New York. (Would support.)

THE NEW INDUSTRIAL AGE

UNIT 3 PROVIDES an analysis of the renewal of economic expansion in the United States after the Civil War. Students examine the reasons for growth in terms of incentives offered in a market economy which rewards innovation. The unit addresses immigration during this period and presents a case study of an immigrant named Andrew Carnegie.

Lesson 1 analyzes how the economy was changing during the period after the Civil War. After an examination of several tables, the students use the *Handy Dandy Guide* and additional reading to learn why the economy continued to grow during this period.

Lesson 2 invites students to apply economic thinking to the study of immigration. They solve a mystery regarding Swedish farmers who move to Kansas. Moreover, they study immigration as an example of transactions occurring in an international labor market.

Lesson 3 introduces students to the role of Andrew Carnegie in the U.S. steel industry. This case study stresses the ideas that market economies foster innovation and that Carnegie's innovations led to new directions in the production of steel.

THE CHANGING U.S. ECONOMY

INTRODUCTION

History The U.S. economy after the Civil War was expanding. Tens of thousands of miles of railway were built. Production rates grew in steel, oil, electricity, textiles, food, chemicals, and transportation.

Mystery The renewed growth of the U.S. economy after the Civil War was not preordained. Many nations, after all, experience serious economic contraction after fighting a major war. Why did the U.S. economy continue to expand?

Economic History The Civil War did not change the ground rules governing the operation of the American economy. After the War, those ground rules continued to provide incentives that encouraged productive activity, including technical innovation and investment. Property rights for new ideas and processes were well defined through copyrights and patents. Producers and consumers expected to benefit as new markets developed.

CONCEPTS

Incentives
Profit
Substitution
Innovation
Economic Growth
Labor
Investment

OBJECTIVES

♦ Use economic principles and statistical data about the U.S. economy to explain the renewal of economic growth in the United States after the Civil War.

♦ Identify ways in which market economies encourage producers to serve consumers by offering substitute products, developing new technologies, and inventing new products.

LESSON DESCRIPTION

Students work in groups to examine economic data and use the *Handy Dandy Guide* to explain the nature and causes of economic growth in the United States after the Civil War. They discuss a handout that summarizes many of the factors involved in stimulating growth. In conclusion students discuss recent innovators.

TIME REQUIRED

♦ Two class periods

MATERIALS

One copy for each student of Activities 1 and 2.
One transparency of Visual 1.

PROCEDURE

1. Point out that the purpose of today's lesson is to help the students understand why the U.S. economy renewed its expansion after the Civil War.

2. Explain that the renewed growth of the U.S. economy after the Civil War was not preordained—it did not have to happen as it did. The U.S. economy went into a slump, for example, after the Persian Gulf War of 1991. Why was the U.S. economy able to return to growth after the Civil War?

3. Display Visual 1, the *Handy Dandy Guide*. Explain that the students should use the *HDG* principles to explain why the U.S. economy expanded in the period after the Civil War.

4. Distribute Activity 1, a collection of economic data from the period after the Civil War. Tell the class that they will be assigned to groups and asked to discover the trends in these data. Encourage them to consider what incentives (Principle 3) might be used in a market economy system (Principle 4) to obtain the patterns of economic growth they discover in Activity 1.

5. Divide the class into groups. Ask the groups to describe the trends they observe in the data and to write their generalizations about why these things were happening. (They will observe an increase in the number of patents. Numerous inventions and discoveries occurred during this

period. Production of petroleum, steel, and flour increased.)

6. Ask the groups to share their explanations with the class. Encourage them to use *HDG* principles in their explanations. Record ideas on the chalkboard.

7. Distribute Activity 2. After students have read it and completed the questions, discuss their responses with the whole group.

A. What incentives does a market economy like the one in the United States offer for innovators? (Profits and well–defined property rights are important incentives in a market economy. Patents and copyrights help ensure property rights for producers.)

B. What incentives caused producers, like Edwin Drake and the Seneca Oil Company, to seek substitutes for whale oil? (Producers who met the demand for less–expensive lighting from consumers would likely be rewarded by earning profits.)

C. How does technology foster economic growth? (Improved technology makes it possible to produce more goods from existing resources.)

D. Name some of the inventions of the late 19th century. (Air brake, Bessemer steel conversion process, incandescent lamp, and the telephone.)

CLOSURE

Explain to the class that the period after the Civil War was similar to the period before the Civil War in the sense that people were responding to incentives that encouraged economic expansion. Review with the class how well–defined property rights guaranteed in the Constitution helped establish an environment for growth. Then *ask:*

A. What are examples of recent cases where producers have searched to find substitutes in response to high prices? (Accept a variety of suggestions. For example, when energy prices increased, auto manufacturers produced more fuel–efficient cars.)

B. What is a recent example of a technological improvement benefiting consumers? (Accept a variety of answers. For example, improved technology has provided consumers with lower–cost personal computers, improved desktop publishing, automobile air bags, and computer systems to monitor automobile gas efficiency.)

VISUAL 1
HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

Name____________________

ACTIVITY 1

PATENTS AND COPYRIGHTS FILED IN THE UNITED STATES, 1865–1900

The information in the tables that follow provides a description of how the U.S. economy was changing in the period following the Civil War. Examine each table and respond to the questions that follow.

TABLE 1

YEAR	NUMBER OF PATENTS FILED	NUMBER OF COPYRIGHTS FILED
1865	10,664	NA
1870	19,171	5,600
1875	21,638	15,927
1880	21,761	20,686
1885	34,697	28,411
1890	39,884	42,794
1895	39,145	67,572
1900	39,673	94,798

(Source: Adapted from U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970.* U.S. Government Printing Office, Washington, D.C., 1976.)

1. What was the trend in the number of patents and copyrights filed after the Civil War?

TABLE 2
SELECTED INVENTIONS AND DISCOVERIES
1860–1902

INVENTION	DATE	INVENTOR	NATIONALITY
Adding Machine	1885	Burroughs	U.S.
Air brake	1868	Westinghouse	U.S.
Automobile (gasoline)	1889	Daimler	German
Bicycle	1885	Starley	English
Camera (Kodak)	1888	Eastman, Walker	U.S.
Carper sweeper	1876	Bissell	U.S.
Diesel engine	1895	Diesel	German
Lamp, incandescent	1879	Edison	U.S.
Motorcyle	1885	Daimler	German
Movie machine	1894	Jenkins	U.S.
Pen (fountain)	1884	Waterman	U.S.
Phonograph	1877	Edison	U.S.
Plow (disc)	1896	Hardy	U.S.
Printing press (web)	1865	Bullock	U.S.
Punch card accounting	1889	Hollerith	U.S.
Radio (magnetic detector)	1902	Marconi	Italian
Razor (safety)	1895	Gillette	U.S.
Record (wax cylinder)	1888	Edison	U.S.
Refrigerator car	1868	David	U.S.
Shoe-sewing machine	1860	McKay	U.S.
Telegraph (wireless)	1895	Marconi	Italian
Telephone	1876	Bell	U.S.
Turbine (steam)	1884	Parsons	English
Wire (barbed)	1874	Glidden	U.S.
Zipper	1891	Judson	U.S.

(Source: Adapted from the *World Almanac and Book of Facts*, 1991.)

2. What trend in invention can you identify during this period?

TABLE 3

PRODUCTION OF CRUDE PETROLEUM, 1865–1900 (IN THOUSANDS OF BARRELS)

YEAR	TOTAL
1865	2,498
1870	5,261
1875	8,788
1880	16,286
1885	21,859
1890	45,824
1895	52,892
1900	63,621

(Source: Adapted from U.S.Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970.* U.S. Government Printing Office, Washington, D.C., 1976.)

3. What trend in the production of crude petroleum can you identify?

TABLE 4

U.S. PRODUCTION OF RAW STEEL AND WHEAT FLOUR, 1865–1900

YEAR	TOTAL OUTPUT OF RAW STEEL (1,000 raw tons)	TOTAL OUTPUT OF WHEAT FLOUR (million barrels)
1865	15	42.5
1870	77	47.9
1875	437	54.4
1880	1,397	64.3
1885	1,917	74.0
1890	4,779	83.3

(Source: Adapted from U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970.* U.S. Government Printing Office, Washington, D.C., 1976.)

4. What trend in the production of raw steel and wheat flour can you identify?

5. Review the trends you have identified in questions 1–4. Summarize these trends in a few written generalizations. Use economic reasoning to explain the trends you have summarized. Combine the summary and the explanation in a paragraph.

Name______________________

ACTIVITY 2

WHY DID THE U.S. ECONOMY RESUME GROWTH AFTER THE CIVIL WAR?

THE U.S. ECONOMY RETURNED TO THE growth path which was interrupted by the Civil War. That point is clear. What is less clear is why the economy continued to expand. Applying economic reasoning can help solve the problem. What economic principles do you think might best explain the return to growth of the U.S. economy after the Civil War?

REWARDING NEW IDEAS

The ground rules of the U.S. economy, established by the U.S. Constitution, provided an environment that encouraged experimentation with new ideas. When people experiment with new ideas, they are hoping for some gains for themselves.

Private property was well established and protected by the U.S. Constitution. People were secure in the knowledge that their homes and incomes would not be taken illegally by the government.

Moreover, the U.S. government extended property rights to include new ideas and inventions. People who developed new products and ideas expected to be rewarded. Their inventions could be protected through patents and copyrights. Others could not use protected ideas without paying for their use. Innovation was encouraged and rewarded. It was a property right.

New ideas, however, do not develop without a reason. A market economy, such as that of the United States, encourages competition among producers who seek to discover the products and services that consumers wish to have. Producers who were able to compete successfully would expect to be rewarded by earning a profit. Those who were unsuccessful would not make a profit. They would be encouraged to seek opportunities in the production of goods and services where they might make a profit by satisfying the wishes of consumers.

THE WHALE OIL CASE

Producers in a market economy seek to introduce new products that interest consumers. Here is an example. In the 1860s, consumers were interested in devices that would reduce the cost of lighting. People could easily imagine the benefits of lower–cost lighting. Work performed outdoors, often in bad weather, could be moved indoors. Families would be able to read and enjoy other entertainment at home in the evening. More public areas in cities could be lit so that people could enjoy evening strolls. And for shoppers, storekeepers would be able to stay open in the evenings if they wished to.

Whale oil was a popular fuel for lamps from 1820–1850, but the supply of whales was limited. As the demand increased the price of whale oil increased motivating whalers to search in new territories for whales. This search increased their costs. A relatively expensive fuel at best, whale oil became still more expensive during the Civil War when Southern warships sank many whaling vessels. Because of higher prices, consumers sought substitutes for whale oil.

Petroleum was well-known. People noticed that it oozed from the ground in certain places, and they used it as a salve or as a crude fuel for lamps. In the 1840s, a Polish scientist devised a lamp which could burn kerosene produced from petroleum. In the early 1850s, people were widely substituting kerosene for whale oil in lamps. Now, the challenge facing producers was to find a way to obtain petroleum in large quantities and at relatively low cost. The race was on, motivated by profit incentives.

The Seneca Oil Company hired Edwin Drake to search for an inexpensive way to extract oil from the ground. On August 28, 1859, Edwin Drake struck oil in Titusville, Pennsylvania. After much experimentation, he discovered that one could successfully pump oil out of the ground. His discovery didn't remain a secret for very long. No one had a patent on drilling and pumping. Within days, every inch of land in what soon came to be called Oil Creek had been bought or leased, and new wells were drilled. Producers had found the substitute that consumers wanted to reduce the price of artificial light. Other uses for oil, also pleasing to consumers, soon followed.

NEW TECHNOLOGY INCREASES PRODUCTIVITY

In making economic decisions, we are always faced with the fact that our desires for goods and services far outnumber the productive resources we have to fulfill them. By reducing the time workers take to produce what consumers want, we can free time to produce other goods and services, previously unavailable.

Improving technology—the processes we use to produce goods and services—can expand the overall production of an economy by decreasing the resources it takes to produce goods and services, releasing workers to produce new goods and services. New technology makes it possible to produce more goods and services from our scarce resources.

In the late 19th century, technology began to develop in new directions. Until that time, most of our devices for producing goods and services were relatively simple. People could learn to use them on the job, and building them required for the most part only some practical knowledge of simple physical principles. After the Civil War, however, scientific ideas and new technology combined to develop new, more sophisticated products that people wanted.

An important form of technological change is invention—the use of science and engineering to discover new products and processes. Examples of inventions in the United States, Germany, and England included the air brake (1868), the Bessemer steel conversion process (1856), the cash register (1879), the incandescent lamp (1879), the telephone (1876), and many more. Many discoveries were also made during this period, aspirin (1889), the electron (1897), and X rays (1895), for example.

QUESTIONS FOR DISCUSSION

1. What incentives does a market economy, like that of in the United States, offer for innovators?

2. What incentives caused producers, like the Seneca Oil Company, to seek substitutes for whale oil?

3. How does technology foster economic growth?

4. Name some of the inventions of the late 19th century.

THE ECONOMICS OF IMMIGRATION*

INTRODUCTION

History Millions of immigrants came to the United States between the Civil War and World War I. While some came from Western Europe, an increasing number came from Eastern and Southern Europe. The United States had no immigration quotas until 1924.

Mystery Why would farmers in Sweden—people living thousands of miles from the United States, who were not wealthy, did not speak English, and had few, if any, relatives in the United States—want to buy land in Kansas? Moreover, why would many farmers who were successful in the United States choose to return to Sweden?

Economic History Immigrants were responding to incentives. They were seeking the most advantageous combination of benefits and costs. Immigration takes place in an international market of buyers and sellers in which nations compete for the job skills of immigrants.

CONCEPTS

Supply
Demand
Price

OBJECTIVES

♦ Analyze immigration as a market activity involving calculation of costs and benefits on the part of suppliers and demanders of immigrants' job skills.

♦ Evaluate the impact of immigration on food production in Sweden.

LESSON DESCRIPTION

Students examine a mystery about why Swedish farmers might have come to the United States in 1880. They study a series of visuals about the economics of immigration. Finally, they use supply and demand analysis to explain why the king of Sweden attempted to persuade Swedish immigrants to return to Sweden.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1, 2, 3, 4, and 5.

One copy for each student of Activities 1 and 2.

PROCEDURE

1. Explain that the purpose of this lesson is to analyze immigration to the United States in the late 19th and early 20th centuries.

2. Display Visual 1. Encourage the students to speculate on why Swedish immigrants would abandon their homes to come to the United States. Remind the class that Principle 1 of the *Handy Dandy Guide* states that people choose the alternative that presents the most advantageous combination of costs and benefits. Principle 2 states that people respond to incentives in predictable ways. Principle 3 stresses the rules of the economic system and their influence on choices and incentives.

3. Display Visual 2 and review the statistics. Ask students to estimate how many immigrants arrived in the United States between 1871–1920 (over 26 million). Point out that the amount of increase from year to year fluctuated according to economic conditions. Financial panics in the United States in the 1870s and 1880s and at the beginning of World War I, for example, reduced immigration.

4. Remind the class that markets allocate scarce resources. It is possible to think of immigration as a market involving sellers, buyers, and rules.

5. Distribute Activity 1. Explain how immigration can be represented as action carried out within a market for labor. Note that immigrants are sellers of labor services; employers in host countries compete to purchase the labor of

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*Adapted from James E. Clark and Jerry D. East, "Farmers as Immigrants: An Economic Mystery," *The Senior Economist*, Joint Council on Economic Education, February 1992.

immigrants; government rules influence the sellers and the buyers of immigrants' job skills.

6. Tell the students that they will apply this view of immigration to the specific case of Swedish farmers coming to the United States. Distribute Activity 2 and divide the class into small groups. Ask the students to make a list of the anticipated benefits and costs that Swedish farmers might expect if they migrated to the United States.

(*Benefits:* productive land, low–priced land, escape old debts, avoid high Swedish land prices, avoid low prices for crops in Sweden.)

(*Costs:* high risk [they knew little of what to expect in the United States], transportation costs, costs of time spent in transit, broken cultural and family ties.)

7. Ask the groups, "If you had been a farmer in Sweden, would you have been willing to migrate to the United States and become a farmer in Kansas?"

8. Ask each group to present to the rest of the class its list of benefits and costs and decision. (Accept a variety of responses.)

9. Explain to the class that the decisions of farmers to leave Sweden soon gave rise to another mystery. *Ask:* Why would successful Swedish farmers in the United States decide to return to Sweden after only a few years? Encourage the students to speculate on possible answers. An analysis of a supply and demand graph will explain why.

10. Display Visual 3. Explain that the migration of farmers from Sweden decreased the number of food sellers in Sweden. The supply curve for food would therefore decrease (shift to the left), raising the price and decreasing the quantity produced. The rise in the price of food caused the cost of living to rise, creating an adverse effect on people living in Sweden. The high prices and loss of production encouraged the Swedish king to try to increase the number of farmers. He devised a set of incentives to encourage them to return from the United States.

11. Display Visual 4. Ask the students to decide whether they would accept the offer and return to Sweden. Ask students to explain their decision by identifying the costs and benefits they anticipated as they made their decision. Tell students that many Swedish farmers did return to Sweden.

CLOSURE

Review the lesson with a discussion. *Ask:*

A. In what ways can immigration by viewed as action taking place within an international market of buyers and sellers of labor services? (Immigrants are sellers in a market. Employers in host countries are buyers. Countries set rules which influence the choices and incentives of immigrants and employers.)

B. Why did immigrants come to the United States? (They were choosing the best combination of anticipated benefits, such as higher incomes in the United States, over anticipated costs, such as abandoning their roots in Europe.)

VISUAL 1

ECONOMIC MYSTERY

WHY DID SWEDISH FARMERS MIGRATE TO THE UNITED STATES?

Why would farmers in Sweden—people living thousands of miles from the United States, who were not wealthy, did not speak English, and had few, if any, relatives in the United States—want to buy land in Kansas?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

VISUAL 2

MIGRATION TO THE UNITED STATES

From 1820 until 1990, about 55 million people chose to migrate to the United States.

Here are the numbers of immigrants from 1871–1920.

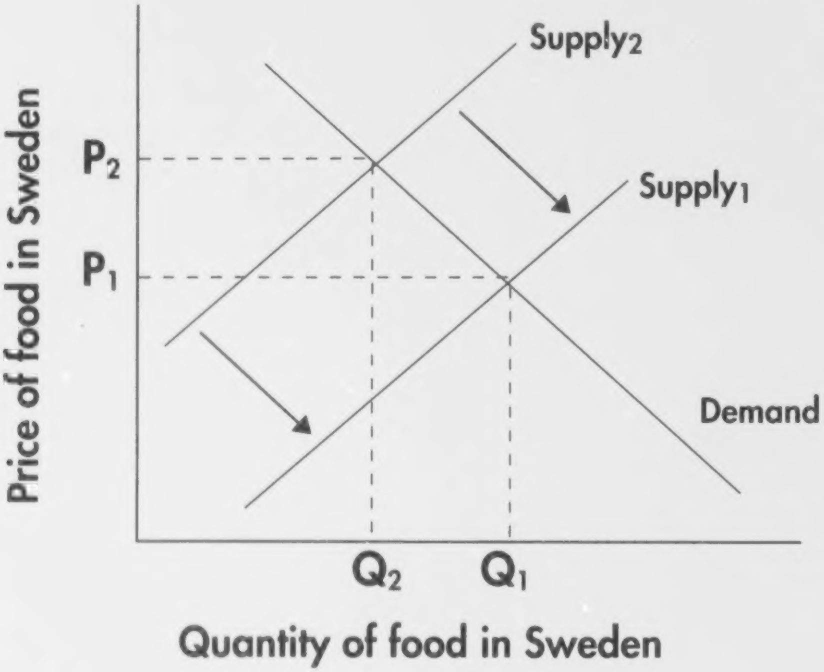
YEAR	NUMBER OF PEOPLE MIGRATING FROM ALL COUNTRIES
1871-1875	1,726,796
1876-1880	1,085,395
1881-1885	2,975,683
1886-1890	2,270,930
1891-1895	2,123,879
1896-1900	1,563,685
1901-1905	3,833,076
1906-1910	4,962,310
1911-1915	4,459,831
1916-1920	1,275,890

Source: Adapted from U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970,* U.S. Government Printing Office, Washington, D.C., 1976.

1. Estimate how many immigrants entered the United States between 1871 and 1920.

2. Why do you think the amount of increase fluctuated?

VISUAL 3
SWEDISH FOOD SUPPLY



From *United States History: Eyes on the Economy,* ©National Council on Economic Education, New York, N.Y.

VISUAL 4

THE SWEDISH KING'S OFFER

1. The king will reimburse you for the land you bought in the United States.

2. All your debts in Sweden will be forgiven; you will not have to repay them.

3. Your return trip to Sweden will be paid in full.

4. Good, productive Swedish land will be provided to you at discount prices.

Name________________________

ACTIVITY 1
THE IMMIGRATION MARKET

1. Potential immigrants are sellers of services.

Immigrants, who offer to sell their job skills, become workers seeking a job in the marketplace in an effort to earn higher incomes in the United States.

After the U.S. Civil War, reductions in travel time (a steamship took only one week to cross the Atlantic compared to three months required earlier by sailing ships) decreased the costs of immigration. Both forces increase the supply of workers in the United States.

2. Potential employers in host nations are buyers of services.

Employers in host nations compete to hire employees.

Employers expect their businesses to be improved through the immigrants they attract.

3. National governments establish the rules of the system which influence choices and incentives.

Historically, the United States and Canada have had rules which welcome immigrants.

Italy and other nations of Southern Europe abolished laws restricting emigration from their nations in the mid–19th century.

Russia persecuted Jews and Baptists encouraging U.S. immigration.

QUESTION FOR DISCUSSION

Describe immigration in terms of an international labor market.

Name______________________

ACTIVITY 2
ADVERTISING FOR FARMERS

The box on the left presents part of an advertisement distributed to farmers in Sweden in the late-1800s by representatives of the Union Pacific Railway, one of the first U.S. railroads to serve the farmlands of the Great Plains. The box on the right provides an English translation of the complete advertisement.

Sista möjligheten
att billigt erhålla
Land i Kansas.

Union Pacific R'y Co. har bealutat att bringa i marknaden återstoden af sitt land i Kansas, beläget i Thomas, St. John och Wallace

Kansas-Land,

1. som aldrig förr varit i marknaden,
2. som är af aldra bäata beakaffenhet,
3. som kan fås billigt och på lång kredit,
4. son är beläget i en redan civiliserad trakt och inom området af en stat, som år 1885 bade ofver 1,270,000 invånare.

Närmare upplysningar lemnas beredvilligt genom bref eller muntligen af

Victor Rylander,
Hufvudagent U.P. R'y Co's
Kansas-Land,
46 South Clark St., Chicago, Ill

LAST CHANCE
TO OBTAIN AT REASONABLE PRICE
LAND IN KANSAS

UNION PACIFIC RAILWAY CO. has decided to put on the market the last of their land in Kansas, located in Thomas, St. John and Wallace Counties; and since I have been named head agent for selling this land, I now ask my people to not neglect this chance, that never will be given again, to establish homes and welfare.

The soil is of the best in harvesting rich crops of wheat, rye, oats, corn, sorghum, broom-corn, clover, fruit berries, and all kinds of vegetables, and maize, naturally the top crop.

At the same time it gives good chances for raising cattle in general, and it is so obvious that Kansas is outstanding in swine-raising in the United States.

MOST OF THE GOVERNMENT LAND HAS BEEN TAKEN.

KANSAS-LAND
1. Has never been on the market
2. Of the very best available
3. Obtained at reasonable price and good credit
4. Is located in an already civilized area in the year of 1885 with a population of 1,270,000.

For further information either write or contact me in person

VICTOR RYLANDER
Head Agent U.P.Ry. Co.'s Kansas-Land
46 South Clark St., Chicago, Ill.

UNIT THREE: LESSON TWO

SWEDEN IN THE 1880S

Farmers in Sweden were under severe economic pressure at the time of this advertisement. Prices had been quite low for most farm products for several years, reducing the incomes and living standards of farmers in Sweden. Prices for farmland in Sweden were controlled by the king of Sweden, and were set so high that farmers had great difficulty buying more land to increase the size of their farms.

Many Swedish farmers were in debt, and repayment of their debts took a substantial portion of their incomes. Taxes were high, and tax payments also took a substantial portion of farmers' incomes.

Most farmers in Sweden farmed the same land that their fathers and grandfathers had farmed. While this heritage left farmers with strong ties to their land, it also left them with land that was worn out and less productive than it had been in the past (chemical fertilizers were not available in the 1880s).

The idea of leaving Sweden did not appeal to everyone. What would life really be like in a new country? Friends and family would be missed. The journey was long and was costly.

THE UNITED STATES IN THE 1880S

In the 1880s, farmland in the United States was relatively abundant and therefore relatively inexpensive. The settlement of the Great Plains was in full swing. New railroads had just been built, enabling farmers to ship their crops and livestock to Eastern markets at relatively low cost.

QUESTIONS FOR DISCUSSION

1. What are the potential benefits of migrating?

2. What are the potential costs of migrating?

3. If you had been a Swedish farmer, do you think you would have migrated?

ENTREPRENEURSHIP CASE STUDY: ANDREW CARNEGIE

INTRODUCTION

History Andrew Carnegie (1835–1919), born in Scotland, was an entrepreneur whose innovations led the way in developing a highly competitive steel industry in the United States. Also recognized for his philanthropy, he gave away $350 million.

Economic History Market economies offer incentives to encourage greater efficiency. Economies change as producers pursue greater efficiency in the production of goods and services which satisfy consumers. Entrepreneurs, like Andrew Carnegie, risked resources in anticipation that they could be put to work producing what people wanted to buy.

CONCEPTS

Entrepreneurship
Wealth
Technological Development

OBJECTIVES

♦ Identify the role of Andrew Carnegie in developing the U.S. steel industry.

♦ Recognize that market economies offer incentives to encourage the use of efficient ways to satisfy consumers.

LESSON DESCRIPTION

This lesson features a class discussion of a case study of an entrepreneur.

TIME REQUIRED

♦ One class period

MATERIALS

One copy for each student of Activity 1.

PROCEDURE

1. Explain that market economies offer rewards in the form of profits to individuals who take financial risks in an effort to discover what goods and services people want and are willing to buy. People who take such risks are called entrepreneurs.

2. Explain that Andrew Carnegie is a classic example of a risk taker.

3. Distribute Activity 1 to the class. After the students have completed their reading, *ask:*

   A. What technological changes paved the way for the expansion of the steel industry? (The Bessemer and open hearth processes made it possible to produce better quality steel in greater quantities at lower cost.)

   B. What were Carnegie's organizational innovations? (He devised ways to reduce costs faster than his competition could reduce theirs. He developed profit centers, advanced accounting techniques, and applied research to production.)

CLOSURE

Conclude the lesson by stressing that a market economy establishes a set of incentives to reward the creativity and efforts of people like Andrew Carnegie.

Ask the class to identify examples of a new product or service that they think young people would like to buy. (Accept a variety of responses.)

Name________________________

ACTIVITY 1

ANDREW CARNEGIE WEALTH CREATOR

SOME ENTREPRENEURS LATE IN THE 19th century were builders of manufacturing firms that reached previously unheard–of sizes. Organizational innovations led the way in the development of large enterprises in the steel, oil, electricity, and automobile industries.

TECHNOLOGY SETS THE STAGE

In the 1850s, William Kelly in the United States and Henry Bessemer in England independently discovered a new process for quickly making large quantities of steel. Known as the Bessemer process, it involved burning impurities out of pig iron with a blast of air. Another innovation for making steel was the open–hearth process. This process enabled the composition of the steel to be controlled more carefully.

The introduction of these innovations resulted in the production of higher quality steel at lower costs. Sellers reduced their prices, and sales increased. Railroads were the first big customers. New uses for lower priced steel were also found in construction, office equipment, and eventually in the automobile industry.

A FAST RISE

The usual story about Andrew Carnegie stresses his rise from poverty to extreme wealth. Born in Scotland, Carnegie arrived in Pittsburgh at age 13. He was soon working as a bobbin boy in a cotton factory for $1.25 per week. At age 15, he became a telegraph messenger in Pittsburgh. At 17, he became the private clerk to the president of the Pennsylvania Railroad. Eventually, he worked his way to a position as division head. By age 24, he had learned a great deal about business from his mentor, Thomas Scott, the president of the Pennsylvania Railroad. He already had begun a series of successful financial investments, buying shares in a small oil company and in the Woodruff Palace Sleeping Car Company.

ORGANIZATIONAL INNOVATIONS

The U.S. steel industry was just getting under way in the 1870s. Carnegie seized the opportunity to develop a new type of organization. The principles he followed were simple enough: take risks in investing in low cost methods for producing large quantities of steel. Pass some of the savings you achieve along to your customers in the form of lower prices. As profits grow, reinvest heavily in the company to keep ahead of your competitors.

Sounds simple. However, putting these ideas into practice required new thinking. Economic historian Gerald Gunderson identifies three of Carnegie's innovations.

1. Profit Centers. In any large enterprise— public or private—bureaucracy is always a threat, adding costs and slowing production. Carnegie made sure that each unit—steel mills, mines, coke ovens—operated at a profit. Each unit was given a production goal. People who met or surpassed goals were well rewarded. Those who could not do so were dismissed.

2. Advanced Accounting Techniques. Carnegie improved cost accounting by making distinctions between fixed and variable costs. He used this information to make decisions about how much to produce and what he could charge. His advanced accounting practices allowed him to measure the performance of production units better than his competition measured theirs. He could quote prices low enough to draw customers away from other steelmakers and still make a profit.

3. Research. Carnegie hired researchers to solve practical problems related to steel production. Their research enabled him to draw on a wider supply of iron ore and to achieve cost savings ahead of his competitors. Moreover, he did not hesitate to install new technology. When open–hearth furnaces were shown to produce steel more economically than Bessemer converters, Carnegie installed six open–hearth furnaces at his Pittsburgh plant even though he had already invested heavily in the Bessemer process.

OTHER EFFECTS OF CARNEGIE'S SUCCESS

Carnegie's successes benefited others. He brought many talented individuals into his organization. When he retired in 1901, he sold Carnegie Steel Company to U.S. Steel Corporation, for $ ½ billion. He then devoted himself to philanthropy, giving away $350 million to various civic and charitable causes.

QUESTIONS FOR DISCUSSION

1. What technological changes paved the way for the expansion of the steel industry?

2. What were Carnegie's organizational innovations?

SAMPLE TEST ITEMS

LESSON 1

1. Why did Edwin Drake and Seneca Oil Company seek a substitute for whale oil?

✓ A. They sought to profit from consumer interest in less expensive lighting.
B. They had a large government contract to do research on the uses of kerosene.
C. Whales had become extinct.
D. All of these.

2. Why did the U.S. economy renew its growth after the Civil War?

Possible answer: The American economy offered several incentives to reward productive behavior. Profits and well-defined property rights as well as patents and copyrights were important incentives. Innovators seeking profits were encouraged to seek lower production costs in several industries such as petroleum, steel, and electricity.

LESSON 2

1. Use economic reasoning to explain why Swedish farmers chose to come to the United States.

Possible answer: Immigrants anticipated that the costs of immigration, including such things as risks associated with living in a new place, transportation costs, and broken family ties, would be outweighed by the benefits, which included such things as owning productive land, escaping old debts, avoiding high land prices in Sweden, and avoiding low prices for crops in Sweden.

2. Why did the Swedish king want Swedish farmers to return home?

A. He missed their companionship.
✓B. The decrease in sellers of food in Sweden raised the price for food and decreased the quantity of food produced.
C. The increase in sellers of food in Sweden was decreasing the price for food and increasing the quantity produced.
D. He received a kickback from the passenger ship companies.

3. According to economic reasoning, employers in potential host nations for immigrants are

✓A. Buyers of immigrant services.
B. Sellers of immigrant services.
C. Unaware of immigrant services.
D. Nonplayers in the market of immigrant services.

4. According to economic reasoning, potential immigrants are

A. Buyers of immigrant services.
✓B. Sellers of immigrant services.
C. Unaware of the host nation.
D. Nonplayers in the market of immigrant services.

LESSON 3

1. Andrew Carnegie is most closely associated with which of the following industries?

A. Petroleum
B. Electricity
C. Chemical
✓D. Steel

2. From an economic perspective, why was Andrew Carnegie a success?

Possible answer: Carnegie took risks in order to devise ways to reduce his costs faster than his competitors reduced theirs. He developed profit centers, advanced accounting techniques, and applied research to production.

UNIT FOUR: OVERVIEW

THE EMERGENCE OF BIG BUSINESS

Unit 4 examines issues related to business consolidation: the "robber barons," monopoly, competition, and the role of government in the regulation of business.

Lesson 1 invites students to use economic reasoning to examine the innovations of John D. Rockefeller in the U.S. oil industry as well as the charges that Rockefeller was an unscrupulous competitor.

Lesson 2 focuses on issues related to business consolidation in the late 19th century. Students examine definitions of monopoly and competition. They use economic reasoning to understand the effects of business consolidation in the 19th century.

Lesson 3 examines the role of government regulation in the U.S. economy. It focuses on the complaints of farmers about unfair prices charged by railroads. By using economic reasoning, students learn how legislation, passed to protect farmers from railroad pricing practices, resulted in the eventual "capture" of the Interstate Commerce Commission by the railroads.

JOHN D. ROCKEFELLER: NOBODY LOVES A COMPETITOR

INTRODUCTION

History John Davison Rockefeller (1839–1937) was an entrepreneur whose innovations led the way in the development of the U.S. petroleum industry. Beginning in 1862, Rockefeller bought a Cleveland oil refinery which, by the 1900s, he built into a world-wide operation. People in business and government were often critical of Rockefeller, accusing him of being a ruthless competitor. Other observers, noting the steady decrease in the price consumers paid for oil, felt he was a genius of the business world.

Mystery Why was John D. Rockefeller, a man many Americans hated, also a benefactor to consumers?

Economic History The accusations that Rockefeller competed unfairly may be overstated. Producers have incentives to reduce production costs in order to undersell their competitors and still make a profit. Rockefeller was accused, for example, of selling below his costs or "dumping" oil on the market to drive out competitors. Rockefeller was also accused of making secret agreements and bribing public officials, which may have given him unfair advantages in the marketplace. However, because of the cost–cutting innovations he introduced, he was able to make a profit selling oil at prices lower than those of his competitors. Higher–cost producers lost revenue and profits, but consumers benefited from lower prices.

CONCEPTS

Entrepreneurship
Innovation
Competition

OBJECTIVES

♦ Identify the role of John D. Rockefeller in developing the U.S. petroleum industry.

♦ Recognize the important contributions entrepreneurs make in creating new ways of doing things in the economy.

♦ Analyze the effect of competition on pricing.

LESSON DESCRIPTION

Students examine primary sources describing John D. Rockefeller. Next, they read and discuss a case study on Rockefeller and his business practices. The lesson concludes with a current example of a business also disliked by its competitors.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activities 1 and 2.

PROCEDURE

1. Pose an economic mystery to the class. Explain that John D. Rockefeller was controversial. To many, he was a ruthless competitor, tough negotiator, and relentless monopolist. Others regard him as a benefactor to consumers. Ask students to speculate about why Rockefeller might be so loved and so hated. Distribute Activity 1 to the class. Ask the students to compare the attitudes toward Rockefeller expressed in the two quotations.

2. Distribute Activity 2 to the class. After the students have completed their reading, *ask:*

A. What innovations did Rockefeller introduce in the oil industry? (He introduced cost–cutting measures—especially in the transportation of oil. For example, he introduced use of the railroad tank car.)

B. Why is Rockefeller regarded by some as a cutthroat competitor? (He is accused of selling below his costs, or "dumping.")

C. Do you think the criticism is justified? (It is easy to understand why Rockefeller's competitors disliked him. His costs were lower than those of his competitors. He could reduce prices below those of his competitors and still make a profit. This put pressure on Rockefeller's competitors to combine with him.)

D. Rockefeller was praised for his philanthropy. Was this his most important economic contribution? (Probably not. His most important economic contribution was providing lower prices to millions of consumers.)

CLOSURE

Review key points of the lesson. *Ask:*

A. How did Rockefeller's business practices benefit consumers? (Through innovations, such as those in transportation, he reduced prices paid by consumers.)

B. Reinforce this point by displaying Visual 1. Explain how innovations in the petroleum industry led to a change in supply from S_1 to S_2. This resulted in lower prices for consumers.

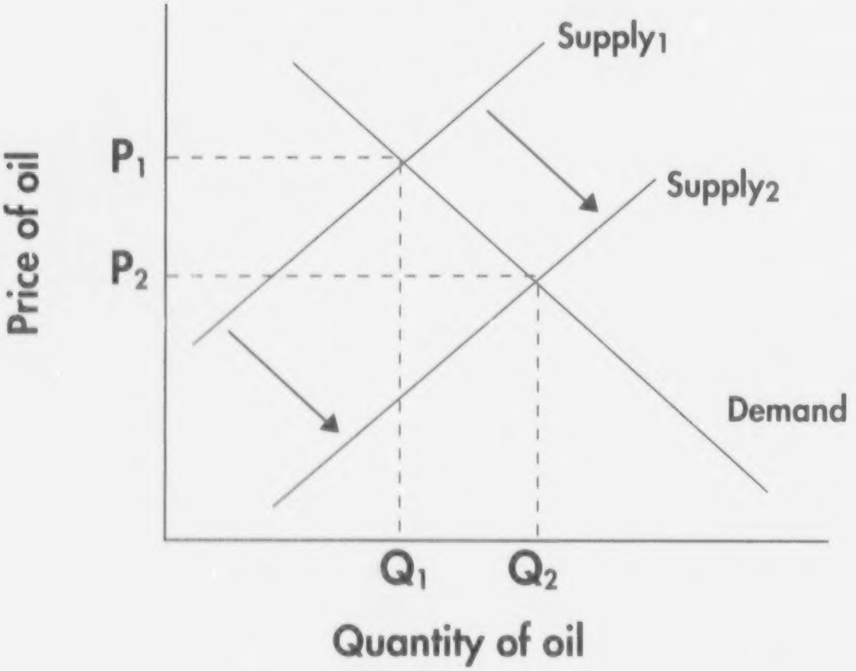
C. Why do you think so many competitors were willing to combine with him rather than compete with him? (They wished to avoid going broke. Rockefeller instead offered them an opportunity to share in the profits.)

D. Using economic reasoning, tell why many people, such as Ida Tarbell, accused Rockefeller of being a cutthroat competitor? (Few people enjoy tough competition. Many of Rockefeller's critics stress the difficulties his competitors faced and the dangers of combinations. Few acknowledge the benefits to consumers, evident in lower prices.)

E. Display Visual 2. Ask the class to speculate about what business today might be the source of such intense displeasure from business leaders. Explain that the business described in Visual 2 is Wal–Mart. The quoted business leaders are owners of small businesses in a community where Wal–Mart was opening a new store.

VISUAL 1

SUPPLY AND DEMAND IN THE LATE 19TH CENTURY OIL INDUSTRY



VISUAL 2

A COMPETITOR ONLY A CONSUMER COULD LOVE

Can you identify the following business?

1. It is a large national corporation.
2. It has a reputation of providing consumers with low prices.
3. One business leader said it will "put me out of business."
4. Another business leader said, "Their market pattern is to prey off existing markets" and "They are a voracious market predator."
5. Yet another business leader said, "They forced me to cut my prices and lower my profits."

Name________________________

ACTIVITY 1
WHO WAS THE REAL JOHN D. ROCKEFELLER?

I ASCRIBE THE SUCCESS OF THE STANDARD Oil Company to its consistent policy of making the volume of its business large through the merit and cheapness of its products. It has spared no expense in utilizing the best and most efficient method of manufacture.

Source: John D. Rockefeller, *Random Reminiscences of Men and Events* (Garden City, NY: Doubleday & Company), 1909.

In the fall of 1871 . . . certain Pennsylvania refiners . . . brought [to Mr. Rockefeller and his friends] a remarkable scheme . . . to bring together secretly a large enough body of refiners and shippers to [force] all the railroads handling oil to give the company formed special rates [discounts] on its oil, and [to charge higher rates for] that of others. If they could get such rates it was clear that those outside of their combination could not compete with them long, and that they would become eventually the only refiners. They could then limit their output to actual demand and so keep prices up.

Source: Ida Tarbell on the methods of the Standard Oil Company. Quoted in *The Progressive Movement 1900–1915*, edited by Richard Hofstadter (Englewood Cliffs, NJ), 1963.

QUESTION FOR DISCUSSION

What explanation of John D. Rockefeller's success does each quotation, respectively, put forth?

Name______________________

ACTIVITY 2
JOHN D. ROCKEFELLER: NO ONE LOVES A COMPETITOR

JOHN D. ROCKEFELLER WAS AN ENTREpreneur who sensed an opportunity waiting to be grasped. To grasp it, he set about bringing organization and efficiency to the emerging U.S. petroleum industry. He did this by figuring out how to cut costs. Cutting costs allowed him to reap personal benefits and pass some of the savings along to consumers. The rewards for his many innovations were great. He became the wealthiest man in the world.

SEEKING LESS EXPENSIVE LIGHTING

The U.S. petroleum industry became increasingly important during the 19th century because it provided substitutes for whale and coal oil used for lighting. Edwin Drake had discovered that petroleum could be pumped successfully from oil wells. Consumer interest in whale oil, already declining, continued to drop as the desirability of less expensive kerosene increased. By the 1880s, kerosene had replaced whale and coal oil as consumers' fuel of choice.

But the petroleum industry in the 1860s was filled with uncertainty. Prices varied wildly as businesses experimented with ways of drilling, refining, and transporting oil. Much confusion existed about which technologies would be best.

REDUCING COSTS

Rockefeller entered the uncertain environment of the oil business in Cleveland in 1862. He quickly recognized that many cost savings could be achieved. Soon he bought out the partners of his firm and made changes in production that would reshape the industry.

Perhaps Rockefeller's greatest innovations were in the area of transportation. It was there that he managed to get ahead and stay ahead of his competition. Oil in those days was hauled in barrels. Loading and unloading barrels of oil took time and was therefore expensive. Rockefeller substituted railroad tank cars for barrels to carry oil. Because of his potential to be a high–volume customer, he was able to pressure (or negotiate with) the railroads to offer him favorable prices (rebates) for shipping his oil. These pricing agreements had the effect of reducing his costs and allowing him to sell at prices lower than those of his competitors.

Rockefeller and his associates established Standard Oil Company in 1870. Within a decade, Standard Oil owned major refineries in Cleveland, New Jersey, Pittsburgh, and Philadelphia. In 1882, Rockefeller organized the Standard Oil Trust. Standard Oil developed a pipeline system, purchased new oil fields, and created new ways to market its product. Rockefeller then controlled most refining and distribution of oil in the United States, and he also controlled much of the world's oil trade.

Because of the innovations Rockefeller employed to make Standard Oil a high–volume customer, Standard Oil's transportation costs dropped like a stone. Prices to consumers followed the same path. The price of petroleum dropped from 36¢ a gallon in 1863 to 8¢ a gallon in 1885.

THE CRITICISMS OF ROCKEFELLER

Newspapers at the time and many historians subsequently have portrayed Rockefeller as a cutthroat competitor. He was accused of using ruthless tactics to drive out his competition. Was he a ruthless competitor? Let's examine the logic of the case. In the sense that he was in front of his competitors in finding ways to cut costs and lower prices—if that's being a ruthless competitor—then the answer is a clear yes. Rockefeller and his associates did benefit from undercutting his competitors, but so did consumers. The majority of Americans could by about 1890 afford kerosene lighting.

Some businesspeople claimed at the time that Rockefeller competed unfairly. They accused Rockefeller of "dumping" oil or selling it below his costs in order to drive them out of business. Does this charge make sense? Standard Oil owed much of its success to reducing costs. Rockefeller could not have sold oil below his costs for very long. If he had, he would have been forced out of business. Rather, through the use of tank cars and pipelines, he had developed ways to reduce his costs sharply. This allowed him to sell oil at prices below those of his competitors. Who benefited from lower costs and prices? Standard Oil and consumers of kerosene and other oil products. Who was hurt from lower costs and prices? Producers unable to compete and consumers who otherwise might have experienced still lower prices from greater competition in the oil industry.

Another charge is that Rockefeller forced other firms to join him. Rockefeller is described as shamelessly selling at lower prices in order to force reluctant firms to join his emerging monopoly. Rockefeller's competitors had little choice, according to this view. This charge overlooks the fact that the majority of firms that Rockefeller acquired had approached him and asked to be taken over. We can speculate about the conditions leading up to these appeals. However, it is clear that Rockefeller's competitors realized that they could not compete successfully with him. His costs were lower. They wanted to avoid going broke. They hoped that in combination with Rockefeller they could eventually charge higher prices to consumers. The owners of these firms concluded that it was to their advantage to join the competition while their businesses were still viable.

BREAKING IT UP

The Standard Oil Trust Rockefeller established was found to be illegal under the Sherman Anti–Trust Act. The Sherman Anti–Trust Act, passed by Congress in 1890, prohibited businesses from acting in combination to restrict competition. Standard Oil continued to operate as a holding company called Standard Oil of New Jersey until 1911, when the U.S. Supreme Court ordered the firm dissolved.

GIVING IT AWAY

While Rockefeller has often been attacked for his business tactics, he is often praised for his generous and far–sighted philanthropy. He gave away $550 million during his lifetime. The legacy of his giving might be familiar to you. He formed the Rockefeller Foundation and Rockefeller University. He helped found the University of Chicago in 1890. He was responsible for the renovation of Williamsburg, Virginia. He funded the restoration of Versailles in France. He acquired the land that eventually became Grand Teton National Park in Wyoming. These are just a few of the endeavors that he supported.

QUESTIONS FOR DISCUSSION

1. What innovations did Rockefeller introduce in the U.S. oil industry?

2. Why is Rockefeller regarded by some as a cutthroat competitor?

3. Do you think the criticism is justified?

4. Rockefeller was praised for his philanthropy. Was this his most important economic contribution?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

THE ECONOMIC EFFECTS OF 19TH CENTURY MONOPOLY

INTRODUCTION

History Late 19th century American business was characterized by consolidation. Some corporations merged with others to establish nearly complete control of their industries. Trusts emerged in the petroleum, cottonseed oil, whiskey, steel, sugar refining, and tobacco industries.

Mystery The late 19th century was a time when business leaders tried to establish monopolies in many key industries. Governments passed legislation to regulate monopolies, but successfully broke up only a couple of them. What happened to all the rest? Where did the monopolies go?

Economic History Firms, when faced with competition, strive to reduce costs and pass the savings along to consumers in order to increase sales and make greater profits. Persistent pressure from competitors, and the threat of reduced profits, motivated many U.S. companies late in the 19th century to reduce prices and maintain high levels of production. This behavior is the opposite of what monopolists are expected to do (that is, to increase prices and decrease production).

CONCEPTS

Wealth
Monopoly
Competition
Incentives

OBJECTIVES

♦ Make distinctions between models for monopoly and competition.

♦ Use economic reasoning and evidence to analyze the impact of business consolidation in the 1880s and 1890s on consumers and workers.

LESSON DESCRIPTION

Students examine a series of visuals and discuss handouts on the economic impact of the "Robber Barons" in the 1890s and today.

TIME REQUIRED

Two class periods

MATERIALS

One transparency each of Visuals 1, 2, 3, and 4.

One copy for each student of Activities 1, 2, 3, and 4.

PROCEDURE

1. Point out to the class that Americans tend to be suspicious of the concentration of wealth. Display Visual 1. Have fun discussing each quotation. Explain that, according to these pundits, the possession of wealth or interest in gaining wealth implies that you are criminal, crude, or crass.

2. Explain that the purpose of this lesson is to analyze the effects of concentrations of wealth in business on the U.S. economy late in the 19th century. Display Visual 2. Invite the students to use economic reasoning to speculate on possible explanations. Suggest that the key lies in remembering that people respond to incentives in predictable ways.

3. Point out that economists have developed idealized descriptions of different kinds of market structures to describe the behavior of people in product and labor markets. One such description is called a perfectly competitive market.

4. Display Visual 3 and discuss the characteristics of a purely competitive market. Explain that, according to this classic definition of competition, U.S. producers of beef come close to working in a purely competitive product market. In labor markets today, the market for nurses might be considered nearly competitive. Its features nearly match those of pure competition.

5. A second idealized description of a market structure is called pure monopoly. Display Visual 4 and discuss the characteristics of a pure monopoly.

6. Comment that DeBeers Consolidated Mines Ltd. is one of the world's strongest private monopolies. It produces a large portion of the world's diamonds from its own mines and it buys a large portion of the diamonds produced by others. The U.S. Post Office is a government-sponsored monopoly. As the only carrier of first-class mail in the United States, it was for many years a monopoly, although recently competitors have reduced its monopoly power.

7. Explain that it is difficult to find many examples that closely match the definitions of perfect competition and perfect monopoly. But market economies, while not perfectly competitive, are highly competitive—in part because the incentives to compete are difficult to suppress. Accordingly, monopolies, when they arise, are difficult to maintain.

8. Distribute Activity 1. Explain that it is an example in which "buyers" form an agreement to act together much as monopolies do. Discuss the scenes. Ask the students to predict what they think will happen. Or, if you would like to take a chance and are feeling generous, bring a $20 bill to class to "sell" to the highest bidder, following the steps in Activity 1.

9. It is likely that some students, protected by anonymous bidding from retaliation, would like to break with the original agreement with Scott and, instead, compete with each other, placing a bid at something higher than one penny. Explain that this situation is very much like the one that faced 19th century business leaders who tried to hold together a monopoly. As long as cooperation existed, the monopoly could hold. However, there were strong incentives to "cheat"—that is, to compete.

10. *Ask:* Are the bidders who did not hold to the original agreement with Scott acting improperly? (Perhaps. Such a game may appear to bring out the worst in people. Yet, it is difficult to fault people for making the best of an uncertain situation. Uncertainty about how others will behave is what might lead students to break the agreement with Scott. Uncertainty about how others will behave also helps explain why business leaders who act in collusion with each other often fail.)

11. Distribute Activity 2 to the class. When students have completed the reading, *ask:*

A. What was thought to be Rockefeller's one-two punch? (First, he would drive out competition by reducing prices. Second, he would raise prices to consumers.)

B. Explain the difficulty of establishing and maintaining monopoly prices after competition subsides. (Higher prices serve as incentives to encourage other producers to enter the market. Prices then may be driven down again. The benefits from monopoly prices are apt to be short-lived.)

C. Were workers worse off during the period of industrialization in the late 19th century than they had been before industrialization? (Real wages increased and decreased at various times during this period. However, the overall trend was one of substantial improvement in real wages.)

12. Explain to the class that a sharp focus on the concentration of wealth in the late 19th century tends to distract us from seeing new areas of expanding economic competition. Many rural businesses during this period acted like "mini-monopolies." Distribute Activity 3. When students have completed reading it, *ask:*

A. In what way did Abraham Winchell operate like a monopoly? (His store offered the only convenient source of many goods.)

B. Why was the number of rural monopolies reduced during this period? (Reduced travel costs and improved communications led to innovations such as the department store, mail order house, and chain store. These innovations increased competition in rural areas, and the increase in competition often reduced the number of regional monopolies.)

CLOSURE

Display Visual 3 again and briefly review it. Explain that the classic definition of monopoly may be changing. Here is a case involving a different view. Distribute Activity 4 and allow the class a few minutes to read about IBM. *Ask:*

A. Why did the federal government take IBM to court? (IBM was the dominant producer in the computer industry. The Justice Department thought that it functioned as a monopoly.)

B. How can a focus on the number of suppliers in a market be misleading? (The observation that there is one dominant supplier in an industry suggests that a monopoly exists. However, this observation can be misleading. The focus should be on how easy or difficult it is for additional producers to enter the market. Are there barriers that might prevent new competitors from entering the market?)

VISUAL 1

IS WEALTH OKAY?

"Behind every great fortune there is a crime."

Honoré de Balzac

"Make money and the whole world will conspire to call you a gentleman."

George Bernard Shaw

"To be clever enough to get a great deal of money, one must be stupid enough to want it."

G. K. Chesterton

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

VISUAL 2

ECONOMIC MYSTERY

WOULD YOU TRUST A TRUST?

The late 19th century was a time when U.S. business leaders tried to establish monopolies in many key industries. Large trusts emerged in the petroleum, cottonseed oil, whiskey, steel, sugar refining, and tobacco industries. The federal government passed legislation to regulate monopolies, but it succeeded in breaking up only a few of them.

What happened to the rest?

Where did the monopolies go?

VISUAL 3
FEATURES OF PURE COMPETITION

Pure competition in a market requires these features:

1. A large number of buyers and sellers interact in the market.
2. The products are very similar.
3. No buyer or seller can influence the market price.
4. It is easy for buyers and sellers to enter or leave the market

VISUAL 4

FEATURES OF PURE MONOPOLY

Pure monopoly, the opposite of a competitive market, requires these features:

1. Only a single seller operates in the market.
2. There are no close substitutes for the product that can be produced by competitors.
3. Other sellers are prevented from entering the market.

Name____________________

ACTIVITY 1
A MONOPOLY: BET YOU CAN'T KEEP ONE

Imagine the following classroom scenes.

SCENE 1

Mr. Morgan, your teacher, has a $100 bill which he says he will give to any member of your class for the highest individual bid he is offered.

SCENE 2

Mr. Morgan leaves the room. Scott leaps to his feet. He proposes that the class agree to bid one penny for the $100 bill. The $99.99 profit could be put toward paying for a class party. Heads nod around the room. All 30 students seem to agree that Scott should bid one penny; everyone else would bid $0.00.

SCENE 3

Mr. Morgan returns to the room. He explains that each student should now submit his or her individual bid on a piece of paper. He assures the students that all bids will be *anonymous*. The name of the highest bidder will be kept strictly *confidential.*

SCENE 4

Mr. Morgan is about to collect the secret bids.

QUESTION FOR DISCUSSION

1. What do you predict the bidders will bid?

2. How might the case of Mr. Morgan's $100 bill help explain why the 19th century monopolies did not always survive?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name____________________

ACTIVITY 2
WERE THE ROBBER BARONS REALLY ROBBERS?

THE BIG BUSINESS LEADERS OF THE 1880s and 1890s were controversial. To admirers, Andrew Carnegie (steel), John D. Rockefeller (oil), Jay Gould (railroads), James J. Hill (railroads), and J. Pierpont Morgan (banking) were "Captains of Industry." Their vision, innovations, and skill paved the way for a bright economic future. To critics, they were "Robber Barons." They established monopolies, crushed their competitors, and raised prices. Many feared that their ruthless business tactics hurt consumers and exploited workers.

Who is right? We may never be certain, but let's examine some evidence in light of economic logic.

THE LOGIC OF MONOPOLY PRICES

John D. Rockefeller has been accused of using a one-two punch to establish a monopoly in a particular region. The claim is that first Rockefeller reduced oil prices in order to force the local competition out of business; then he delivered the second punch and raised oil prices.

Evidence for the first punch is quite clear. Rockefeller led the way in reducing costs and prices in the U.S. petroleum industry. The price of refined oil was $24.67 per barrel in 1865. By 1872, the price had dropped to $9.66. By 1884, the price had declined still further, reaching $3.36.

The evidence for the second punch—raising prices once the competition was removed—is less clear. Efforts were made by some of Rockefeller's companies in 1872 and 1887, for example, to raise prices by holding back oil production—restricting quantities of oil. But in these cases *other* oil producers such as those in Clarion County, Pennsylvania, continued pumping. Moreover, almost overnight, new wells came into production whenever prices increased. After a few months, prices would again drop.

The problem for monopolists is that once they begin to increase prices, it is difficult to keep the competition away. When prices go up, competitors are encouraged to enter the market. In his case, Rockefeller felt pressure to keep prices low out of fear that others (even those who had entered into agreements with him) would be tempted to enter the market to undercut his "monopoly" prices.

Business leaders like John D. Rockefeller passed along most of their cost savings to their customers. However, they were not acting this way from a desire to do good for others. Rather, they were responding to incentives. They wished to use the resources they had in order to achieve the highest sustainable profit they could muster. While many of their competitors had combined with them rather than go out of business, the threat of new competition remained acute. Efforts to raise prices could not be sustained. It was this threat of competition that encouraged big business leaders to pass along to their customers the cost savings they achieved through reduced prices.

WERE WORKERS BETTER OFF AFTER INDUSTRIAL CONSOLIDATION?

By today's standards, life in U.S. factories late in the 19th century was dismal. There was plenty of competition for jobs. Job security was nonexistent. It seemed that an employee could be fired for almost any reason. Many factories, like those in developing nations today, were dangerous places. Open furnaces, hot temperatures, and dangerous chemicals were common. Injuries and diseases were frequent. Hours were long and the work exhausting. Moreover, children were often involved in hard, dangerous work.

While work in factories was hard and uncertain, so too was life on the farm. Farmers routinely suffered work-related injuries and wore out their bodies early from hard labor. The most important question to pose, however, is whether people living under conditions of industrial consolidation were worse off than they had been before. Did U.S. standards of living for working people actually decline late in the 19th century?

Many historians have speculated that the concentration of business drove down wages. Estimates of real wages tend to dispute this speculation. Real wages (wages adjusted for price changes) did fall at several points from 1890 until 1914, but they always recovered. Measuring from the beginning of this period to the end, overall real wages improved by about 30 percent. This increase is, of course, an average. While many workers were better off, clearly there were others who were not.

While real wages were improving, would workers have been better off without the monopolies of the 1880s and 1890s? Overall, economic historians agree that the concentration of industry resulted in prices that were at times higher than those that would have been produced in a more competitive market. Some estimates are that, if competition had been maintained, the incomes of individuals would have been increased by 1 or 2 percent. Were the innovations introduced by people like John D. Rockefeller and Andrew Carnegie worth this cost? Whatever your response to this question, the economic damage from reduced competition during the late 19th century may be overdrawn in many conventional history books.

QUESTIONS FOR DISCUSSION

1. What was thought to be Rockefeller's one-two punch?

2. Explain the difficulty of establishing and maintaining monopoly prices after competition subsides

3. Were workers worse off during the period of industrialization late in the 19th century than they had been before industrialization?

Name________________________

ACTIVITY 3

COMPETITION IN UNEXPECTED PLACES

THE LATE 19TH CENTURY IS OFTEN described as a time when competition was reduced in many U.S. industries. At the same time, however, competition also expanded in some unexpected places.

Abraham Winchell had established a niche for himself in the little town of Chatburg, Minnesota. Winchell's Store offered local residents their only convenient supply of things like factory–made clothing, tools, and a variety of other dry goods. While people who had been to stores in St. Paul thought Winchell's prices were too high, there seemed little that anyone could do about it.

Around 1890, things started to change. One customer after another told Abe about how easy it was to order new clothes from the Montgomery Ward catalog. Louise, one of Abe's dearest customers, kindly explained that it wasn't a problem if he didn't have the new hat she wanted. She'd seen the same one in the Montgomery Ward catalog, and it was less expensive than the hats Abe sold. The next day Abe caught his wife Agnes sneaking a look at Louise's catalog. How, pondered Abe, could he put a stop to this new threat to his business?

Abraham Winchell wasn't alone. Other small businesses which had established local mini–monopolies also faced new competition. Reduced transportation costs (because of railroads) and improved communications (through the telephone) were increasing competition on several fronts, making it harder and harder to maintain prices at the old levels. There were other influences as well:

Department Stores The invention of the department store provided a dependable product to consumers, with generally low prices reflecting economies of scale.

Mail Order Houses The invention of the mail order house (Montgomery Ward, founded in 1872; Sears, Roebuck, founded in 1886) enabled people in rural areas to gain easy access to a wide range of merchandise.

Chain Stores The introduction of chain stores like Woolworth offered consistent products at low prices.

These changes attacked the local and regional monopolies possessed by thousands of small businesses around the country.

QUESTIONS FOR DISCUSSION

1. In what way did Abraham Winchell operate like a monopoly?

2. Why was the number of rural monopolies reduced during this period?

Name____________________

ACTIVITY 4
WHEN IS IT MONOPOLY?

Perhaps our traditional definition of "monopoly" with its stress on "mono," or "one," supplier in a market is misleading. Let's examine the case of IBM to see if our definition needs to be changed in light of today's computer industry.

IBM: A MONOPOLY?

IBM (International Business Machines) is one of the world's oldest and largest manufacturers of computers. Under the leadership of Thomas J. Watson, IBM was among the first to recognize the contributions that computer technology could make to business and government. Moreover, IBM offered the sales and service support that many customers wanted to help them learn how to use this new technology.

IBM became a giant in the computer industry. In the 1970s, the U.S. Justice Department claimed that IBM was an illegal monopoly. A court battle raged for years, costing millions of dollars. Finally, the federal government dropped its case. It recognized that although IBM was a giant company, it was not an illegal monopoly.

The difficulty of the IBM case suggests that our definition of "monopoly" may need to change. If we focus on the fact that there is a dominant supplier in a market, we may be distracted from the more serious question: How easy is it for additional producers to enter the market? What barriers might prevent competition from emerging? Is the market closed? Clearly, IBM in the 1990s has more competition than it had before. This suggests that what appeared to be a monopoly position in the 1970s was actually a case where IBM had been far ahead of its competitors. By the 1990s, the competitors were catching up. The market is not closed.

QUESTIONS FOR DISCUSSION

1. Why did the federal government take IBM to court?

2. How can a focus on the number of suppliers in a market be misleading?

REGULATION OF BUSINESS*

History Increasing industrialization created many new problems for U.S. farmers. Farmers blamed many of their problems on the railroads. They argued that railroads charged low prices on long haul shipments where there was competition and high prices on short haul shipments where there was no competition.

Mystery The farmers' concerns about railroad pricing practices led eventually to government regulation of railroads. However, by 1920, railroads were able to legally charge prices that farmers thought should be illegal. Why did government regulators permit this to happen?

Economic History Two principles of economic reasoning are that the rules of the economic system influence incentives and that people respond to incentives in predictable ways. These principles suggest that government agencies will have a difficult time serving the public interest in the long term by regulating business. If a government agency has control over an industry practice (like prices), people in that industry face strong incentives to watch closely over the agency's actions. The industry will attempt to influence the agency's decisions. Conversely, individual consumers have little incentive to watch closely over the agency.

CONCEPTS

Regulation
Price
Incentive
Natural Monopoly
Captured Agency

OBJECTIVES

♦ Identify the conditions under which government might protect a monopoly.

♦ Analyze pricing practices in the U.S. railroad industry at the turn of the century.

♦ Explain incentives which encourage producers and employees in regulated industries to seek favors from regulators.

♦ Explain incentives which encourage regulators to serve producers and employees in regulated industries.

♦ Identify examples of "captured" regulatory agencies.

LESSON DESCRIPTION

Students are presented with an economic mystery. They read and discuss handouts concerning farmers' demands for government regulation of railroads and how the ensuing regulation created incentives which caused the Interstate Commerce Commission to become a "captured" agency. They apply their analysis to the deregulation of airlines and trucking in the late 1970s.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activities 1 and 2.

PROCEDURE

1. Explain that the purpose of this lesson is to study the effects on railroads of government regulation.

2. Display the mystery in Visual 1. Encourage students to speculate about a possible solution. Point out that an important principle of economic reasoning is that the rules of the economic system influence incentives and choices. The key to solving this mystery lies in following who, under the new rules, has incentives to pay close attention to a regulated industry—the public or the firms under regulation?

3. Distribute Activity 1. When the students have completed the reading, *ask:*

   A. What were the complaints of U.S. farmers? (Price discrimination in long versus short hauls.)

   B. Why may it have been more expensive for railroads to serve farmers in the West

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*Adapted from Leon Schur and Kathleen Ryan Johnston, "U.S. Deregulation: Lessons from American History," *The Senior Economist*, Joint Council on Economic Education, Spring 1988.

and South than manufacturers in the East? (Farming was seasonal. Crops required expensive peak loading periods, many cars, and one-way movement east. The return trip with its empty cars increased the total cost of providing the service.)

C. What is a natural monopoly? (A natural monopoly occurs when production of the product requires extremely large capital investments and when one firm can produce at a lower cost than can be achieved by several firms.)

D. What often destroys a natural monopoly? (Technology.)

4. Distribute Activity 2. When the students have completed the reading, *ask:*

A. How did the U.S. government respond to the complaints of farmers? (Granger laws were passed. Eventually, the Interstate Commerce Commission was established.)

B. How strong is the public's incentive to pay attention to regulatory agencies over the long run? (The public has a relatively weak incentive.)

C. How strong is the incentive for business leaders and employee groups to pay attention to regulatory agencies over the long run? (Business leaders and employee groups have a relatively strong incentive.)

D. What is a "captured" regulatory agency? (In a captured agency regulators establish rules which favor the interests of business leaders and employee groups in a regulated industry.)

E. How conclusive is the evidence that the ICC was "captured"? (The railroads actively tried to influence appointments to the ICC. The ICC took actions to reduce competition and raise prices.)

CLOSURE

Explain that this lesson demonstrates how regulations become rules of the economic system. When the rules change, new choices are presented to people in the industry. Over time, representatives of business and employee groups have stronger incentives to try to influence the actions of a regulatory agency than do members of the public. These representatives seek regulatory favors by supporting political campaigns of members of Congress who, in turn, influence the appointment and activities of regulators.

Explain that the history of regulation in the U.S. airline industry followed a pattern similar to the one we have seen in the railroad industry. The Civil Aeronautics Board, the government agency regulating airlines, initially reduced competition among the airlines by limiting entry to existing routes and stifling price competition. In response to the results that followed—for example, airlines charging high airfares and flying half-empty planes—Congress passed the Airline Deregulation Act in 1978 to encourage more competition in the airline industry.

Display and discuss Visual 2. While the U.S. airline industry has been somewhat unstable since deregulation, there have been many benefits to consumers. Point out that the deregulation of trucking in 1980 had similar results.

VISUAL 1

ECONOMIC MYSTERY THE UNEXPECTED OUTCOMES OF GOVERNMENT REGULATION

U.S. farmers in the 1880s, convinced that they were being charged unfair prices, wanted the prices charged by railroads regulated by the federal government.

By 1920, railroad prices were regulated. However, the prices allowed by the ICC for the railroads were well above those that would have been set by competitive pricing.

Why were regulated railroads able to charge prices *legally* that farmers had previously thought should be *illegal?*

VISUAL 2

DEREGULATION OF AIRLINES IN THE UNITED STATES, 1980–1988

	BEFORE COMPETITION	*AFTER COMPETITION*
Average Fare	Higher	Lower
Average Profit	Higher	Lower
Average Wages	Higher	Lower
Efficiency (maximum production, minimum cost)	Lower	Higher
Capacity Utilization	Lower	Higher
Number of Unprofitable Routes	Higher	Lower

Source: *The Senior Economist,* Joint Council on Economic Education, Spring 1988.

Name________________

ACTIVITY 1
REGULATION OF RAILROADS

COMPLAINTS OF FARMERS

Many U.S. farmers in the West hated the railroads. Since the railroads were built in part to help farmers ship their products, why would farmers hate them?

Farmers were angered by what they called price discrimination, practiced by many railroads. Price discrimination occurs when a seller sells the same product, with the same cost of production, at different prices. Farmers accused railroads of charging low rates in long hauls where there was great competition and charging high prices on short hauls where there was no competition.

Farmers also complained that railroads were able to get away with these unfair practices because public officials were corrupt.

WERE THE COMPLAINTS VALID?

There are examples in U.S. history of railroads engaging in price fixing pools, price discrimination, kickbacks, rebates, and outright bribery. The question of interest is whether the higher prices typically charged to farmers resulted from price discrimination made possible by monopoly power. Another possibility is that the prices were a reflection of the railroads' actual cost of production.

Railroad officials argued that it cost more to serve farmers in the South and West. Unlike eastern manufacturing, farming was seasonal. Crops required peak loading at harvest time. Many train cars were required. Also, farm shipping usually involved one–way movement of crops to the East. The cars made the return trip empty, increasing the cost of providing the service. Also, shipping in the East usually required fewer cars in an area of the country where the number of cars available was greater. The number of railroad cars serving the manufacturers in the East tended to be greater than the number of railroad cars serving the West and South. Thus, the railroads were able to charge manufacturers lower prices.

WERE TRUNK LINES NATURAL MONOPOLIES?

When railroads worked together to fix prices, the result was formation of a monopoly or a cartel. A monopoly or cartel has the power to limit production and set prices above competitive levels, increasing its profits. Railroad cartels were sometimes successful in the short run when the number of companies was small. But, as soon as competitors laid track and entered the market, cartels failed.

Why were railroads interested in forming cartels or monopolies? The incentive for railroads to form monopolies has something to do with railroad trunk lines. In the days before interstate highways and air travel, railroad trunk lines were examples of *natural monopolies*. Trunk lines are tracks running between distant points. For example, a railroad track from Chicago to New York would be a trunk line.

A *natural monopoly* occurs when production of the product or service requires extremely large capital investments and when one firm can produce at a lower cost than can be achieved by several firms. This seems to have been the case with regard to the railroad trunk lines. It didn't make sense to run two sets of tracks between distant cities when one would do. Similarly, today it seems to make little sense for each oil or gas company to build its own pipelines when one would do.

A ROLE FOR GOVERNMENT

In the case of a natural monopoly, government regulation is used to try to ensure a fair price to the consumer and a fair rate of return (profit) to the producer. However, the precise form of government regulation may vary.

DESTROYING NATURAL MONOPOLIES

Natural monopolies are often defeated by new technology. For example, new developments in trucking, interstate highways, and air travel all fostered competition with railroad trunk lines. More recently, satellite communications, microwave relays, and optical fiber systems have broken down the natural monopoly once found in long distance telephone services.

QUESTIONS FOR DISCUSSION

1. What were the complaints of U.S. farmers?

2. Why may it have been more expensive for railroads to serve farmers in the West and South than manufacturers in the East?

3. What is a natural monopoly?

4. What often destroys a natural monopoly?

Name________________________

ACTIVITY 2
THE ECONOMICS OF GOVERNMENT REGULATION

RESPONSE TO COMPLAINTS

Many U.S. farmers were convinced that railroads had become their enemy. What could farmers do to change the practices of the railroads? They began to push for political action. Government responded to the complaints of farmers by passing several new laws.

1. Granger Laws set maximum rates for railroads and grain elevators in the 1870s.

2. In 1877, the U.S. Supreme Court affirmed states' rights to set rates charged by railroads in *Munn v. Illinois*.

3. In 1886, the U.S. Supreme Court, in *Wabash, St. Louis, and Pacific Railroad v. Illinois* eliminated state regulation and focused attention on Congress for regulation.

4. The Interstate Commerce Act of 1887 was passed by Congress. It was the *first* large–scale effort of the federal government to regulate transportation including the efforts of railroads to reduce competition and charge differential rates. The Act created the Interstate Commerce Commission (ICC), made up of five members appointed by the President and the confirmed by Senate.

REGULATION OFFERS NEW INCENTIVES

In a market economy, businesses expect to increase their profits by improving efficiency or expanding production. Government rules can introduce new opportunities for increasing profits. How? Producers and employee groups in a regulated industry can try to increase profits by seeking favorable rules from regulatory agencies—rules restricting competition in their market.

Once legislation is passed and regulatory agencies are established, the public has little incentive to be greatly concerned with regulatory actions. The public tends to believe that the problems in a particular industry are being adequately addressed. And the effects of particular regulatory decisions, spread out over the public at large, may appear to have little impact.

Unlike the public, producers in regulated industries have vital interests at stake. Consequently, they pay very close attention to the actions of regulatory agencies. After all, favorable actions can mean increased profits or losses, more or fewer jobs, and protection from competitors.

It is not a surprise that special interest groups, business leaders, and employee groups in a regulated industry exert a disproportionately large influence on the political process. Over time, by supporting political campaigns and speaking about their problems to members of Congress and the President, they can succeed in "capturing" a regulatory agency. This happens when regulators, those appointed to be "watch dogs" in an industry, have incentives to establish rules that favor the interests of business leaders and employee groups over the interests of consumers at large. Higher prices are a common result.

WAS THE ICC "CAPTURED"?

The Interstate Commerce Commission (ICC) was established in 1887 to regulate the railroad industry. Representatives of the railroads engaged in intense efforts to influence appointments to the ICC. Did the ICC become a "captured" agency? You decide, based on the following steps taken by the ICC:

1. Entry of new railroad companies into the market was limited (which limited competition).

2. Regulation was extended from trunk lines (natural monopolies) to shorter, or branch, lines where there was a greater potential for competition. This extension of regulation limited price competition through price fixing and pooling.

3. The ICC used the stated objective of equalizing rates over different routes to set uniform rates that were above what competitive levels would have been. Higher prices resulted in decreased production and excess capacity.

QUESTIONS FOR DISCUSSION

1. How did the U.S. government respond to the complaints of farmers?
2. How strong is the public's incentive to pay attention to regulatory agencies over the long run?
3. How strong is the incentive for business leaders and employee groups to pay attention to regulatory agencies over the long run?
4. What is a "captured" regulatory agency?
5. How conclusive is the evidence that the ICC was "captured"?

SAMPLE TEST ITEMS

LESSON 1

1. John D. Rockefeller was most closely associated with which of the following industries?

✓A. Petroleum
B. Electricity
C. Chemicals
D. Steel

2. Use economic reasoning to explain why competitors may have hated Rockefeller while consumers may have loved him.

Possible answer: Rockefeller, through the use of tankers and pipelines, had devised ways to reduce his production costs faster than his competitors could reduce theirs. He was accused of selling oil below his costs, of "dumping" oil on the market to drive out competitors or force them to join him. However, because of the innovations he introduced, Rockefeller typically did not sell below his costs. He was able to make a profit at prices lower than those charged by of his competitors. Consumers benefited from these lower prices.

LESSON 2

1. DeBeers is often used as an example of which type of market?

A. Competitive
B. Command
✓C. Monopolistic
D. Plutocratic

2. Which of the following is not a feature of a competitive market?

A. A large number of buyers and sellers.
B. Similar products are bought and sold.
✓C. Market entry is difficult.
D. No one controls the market prices.

3. The biggest problem for potential monopolists in a market economy is that once they start to drive up the price

✓A. Competitors are encouraged to enter the market and prices drop.
B. Competitors are encouraged to enter the market and drive the price still higher.
C. The monopolist tends to lose interest and the business begins to fail.
D. The monopolist is encouraged by regulators who threaten legal action to lower the price.

4. Some workers in the late 19th century were worse off and others were better off than they had been before. However, the overall trend of real wages

A. Remained the same.
B. Declined.
✓C. Increased.
D. The data are uncertain.

5. The number of mini-monopolies of many rural businesses decreased in the late 19th century by

✓A. Competition from mail order houses and department stores.
B. Stricter enforcement of the Sherman Anti-Trust legislation.
C. The establishment of the Interstate Commerce Commission.
D. The demise of the Sugar Trust.

LESSON 3

1. An example of a natural monopoly is

A. An oil pipeline
B. A natural gas pipeline
C. A railroad trunk line
✓D. All of these

2. U.S. farmers in the late 19th century believed they were charged unfair prices. The railroad companies claimed that it cost more to serve farmers in the West and South than manufacturers in the East.

A. Explain why farmers complained about the short-haul versus long-haul rates.
Possible answer: Farmers complained about price discrimination. They accused railroads of selling the same product, with the same production costs, for different prices. On long hauls, where there was competition, railroads charged low rates. On short hauls, where there was little competition, railroads charged higher rates.

B. Explain why railroad owners thought their rates were fair to farmers.
Possible answer: Unlike manufacturing

in the East, farming was seasonal. It had peak loading periods when many cars were required. The empty return trip increased the cost of providing the service. Manufacturers in the East required fewer cars in an area where the quantity of cars was greater. Therefore, the cost of providing rail service was lower, and lower rates to manufacturers were justified.

3. Use economic reasoning to explain why railroads were eventually able to charge prices that were above competitive levels.

Possible answer: When the Interstate Commerce Commission (ICC) was given control over prices charged by the railroads, industry and employee representatives faced strong incentives to watch closely over the agency's actions. They attempted to influence the agency's decisions by explaining the problems in the industry to members of the ICC and by trying to influence the appointment of individuals to serve on the regulatory board of the agency. Conversely, individual consumers have little incentive to watch closely over an agency. They tend to assume things are being looked after. Eventually, the railroad industry was able to "capture" the ICC. Through the actions of the regulators, prices could be set at higher than competitive levels.

THE ECONOMICS OF RACIAL SEGREGATION

DURING THE LATE 1880s and early 1900s, government rules (mostly state statutes and local ordinances) to enforce racial segregation became widespread throughout the South. Unit 5 offers an economic analysis of issues related to legally sanctioned segregation. Students learn how segregation limited alternatives for African Americans. They also learn why some racial barriers have been eroded more recently.

Lesson 1 poses an economic mystery regarding why freed African American slaves remained in the South after the Civil War. The lesson demonstrates the importance of knowledge regarding alternatives. In cases where knowledge of alternatives is suppressed, people's capacity to choose is restricted.

Lesson 2 invites students to examine why African Americans began to succeed in their efforts to reduce legally sanctioned racial segregation in 1955 after having been unable to accomplish this goal in 1892. The lesson shows how changes in the average income of African Americans during these years made it increasingly costly for society to enforce segregation.

WHAT DOES A FREED SLAVE DO?

INTRODUCTION

History Most emancipated African Americans did not leave the South after the Civil War. Some migrated North and West, but most remained near their homes, working as sharecroppers.

Mystery Before the end of the Civil War, African Americans stayed in the South because they were held there involuntarily as slaves. When they were freed, why did more African Americans not leave the South, to get away from the place where slavery had been practiced?

Economic History Economic reasoning stresses the importance of the choices people make. To choose, however, one must know what the alternatives are, and one must be prepared to bear the costs that every choice entails. Most newly emancipated slaves had little information about places to live outside the South. Most had little money and little capacity, therefore, to pay the costs involved in relocation. In the absence of information about alternatives and with limited ability to pay the costs involved in moving, African Americans in large numbers remained as sharecroppers in the South.

CONCEPTS

Choice
Alternatives

OBJECTIVES

♦ Identify alternatives available to freed African Americans after the Civil War.

♦ Develop a hypothesis to explain why most slaves remained in the South after the Civil War.

LESSON DESCRIPTION

This lesson requires students to use economic reasoning to develop an explanation for the behavior of former slaves after the Civil War. It begins with a class discussion, involves students in small groups to read clues and develop a hypothesis, and concludes with a class discussion to examine and defend the hypotheses formulated.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency of Visual 1.
One copy for each student of Activities 1 and 2.

PROCEDURE

1. Explain to the class that the passage of the 13th Amendment to the U.S. Constitution ended slavery in the United States. However, the economic future of the newly freed African Americans was unclear. Display Visual 1 to the class. Ask students to speculate on why African Americans chose to remain in the South.

2. Explain that the class will use information to develop hypotheses about the choices African Americans might make once they were freed. Distribute Activity 1 and divide the class into small groups.

3. Ask the groups to report on their responses to the questions in Activity 1. *Ask:*

A. What were the skills African Americans possessed and the circumstances they faced following passage of the 13th Amendment? (African Americans had a narrow range of skills relating to southern agriculture and household tasks. They had little formal education and few opportunities to travel beyond the immediate area.)

B. Describe the opportunities available generally to Americans in the 1860s and 1870s. (Opportunities included homesteading, working with cattle, sharecropping, working in a factory, working as an artisan, professional work in law or medicine, or farming in the Northeast or Southeast.)

4. Distribute Activity 2 to the groups. It provides additional information to help them make hypotheses about the choices that African Americans might make. Ask the groups to write their hypotheses on Activity 2.

5. When the groups have written their hypotheses, ask them to present and defend their ideas to the entire class. Encourage use of the logic and information from the handouts.

CLOSURE

Summarize the lesson by explaining several facts that will help students to assess the hypotheses.

Note that many African Americans chose to remain in the South following the Civil War, many as sharecroppers. This outcome reflected the narrow range of skills possessed by African Americans as a result of slavery, as well as the constraints that racism and segregation continued to place upon their options.

African Americans had few ways to acquire information about other economic opportunities. African Americans did not begin to move from the South in large numbers until early in the 20th century. Economic life in the South changed very slowly when compared to other regions in the nation. (During World War I, however, African Americans began to leave the South for job opportunities in northern factories. This pattern intensified during World War II and continued until the 1970s.)

VISUAL 1
ECONOMIC MYSTERY
WHY NOT LEAVE?

Before the Civil War, African Americans had been slaves in the South for generations. They had to stay where they were held or risk severe punishment.

After the Civil War and the abolition of slavery, few African Americans left the South to seek economic opportunities elsewhere.

Why?

Name______________________________

ACTIVITY 1

AFTER SLAVERY, WHAT NEXT?

IN 1865, THE 13TH AMENDMENT TO THE U.S. Constitution ended slavery in the United States. Between 3 and 4 million African Americans were freed. What next? The following paragraph describes the skill levels and life circumstances that were common for most of the freed African Americans. That description is followed by a list of the opportunities available for Americans generally in the late 1860s and 1870s. After reading the description and the list of opportunities, form a hypothesis to explain the choice that *most* newly freed African Americans would make. Be prepared to defend your hypothesis.

A FREED AFRICAN AMERICAN (1865–1880)

Imagine that you are a newly freed African American living somewhere in the old Confederacy in the period just after the Civil War. What skills are you likely to possess? Male or female, you probably know a lot about growing and harvesting cotton, tobacco, sugar, or rice. You probably know about growing food crops, for example, squash or corn, to feed a family. If you are male, you may know how to ride a horse, build wooden homes or barns, cut timber, or work with iron or metal. If you are female, you probably know how to sew and cook, wash clothing, and care for infants; perhaps you know how to serve as a maid. Male or female, if you know how to read and write, you are an exception. Slaves were forbidden to read or write, and whites who taught these skills to slaves could be punished. Male or female, you probably have family members living with you or nearby. You may also have family members who were formerly sold and live now in locations unknown to you. Male or female, you have probably not traveled far from your home, unless you were transported following your sale during slavery to a new owner. You are probably not familiar with cities.

OPPORTUNITIES

1. In 1862, the U.S. Congress passed the Homestead Act. It said that settlers who filed claims on government lands in the West could have up to 160 acres "free" if they would promise to live on the land and work it for five years. Such "homesteads" were available mostly in areas west of the Mississippi River. Homesteads in the Far West were suitable for growing many crops and raising livestock. Homesteads in the eastern Rocky Mountain region and the Great Plains were suitable for growing crops like wheat and corn.

2. In the 1860s, cattle roamed by the hundreds of thousands in areas like Texas. Hired by businesspeople who obtained railroad contracts to ship the cattle to cities in the Midwest and East, cowboys rounded up the cattle and drove them hundreds of miles to railroad stations. Cowboys had to be skillful horsemen and tough enough to survive harsh conditions for months on end. Eventually, cattle drives declined as railroads pushed farther west and cattle ranchers developed and bred animals for sale. A cattle rancher had to obtain use of hundreds of acres of land for grazing in order to be a success.

3. Owners of plantations and farms in the South needed workers to grow and harvest crops like cotton, tobacco, rice, and sugar. They were unwilling to pay much money for such work, in part because little U.S. currency existed in the South after the Civil War. Confederate dollars were no longer useful to buy goods and services. As an alternative, landowners were able to "pay" workers with part of the crop they raised. This was called *sharecropping*. For example, the owner of a cotton plantation could pay workers one-third of the cotton they grew. This pay would come only at harvest time and could then be traded for other goods or sold for cash (if available). If workers needed goods before harvest time, they might trade the potential value of their share of the crop for credit at a store. Workers could live on the land they farmed, growing their own food.

4. Factory jobs were available, mostly in the North and Midwest. Most factories were located in cities. Factory jobs generally paid cash.

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Working hours usually averaged 10 per day, 6 or 7 days per week. Some factory jobs required special skills; others did not. Competition for such jobs was usually strong, especially as more and more immigrants from Europe arrived in the United States and moved to cities in the North and Midwest. Factory workers could rent housing or buy it if they had enough money. They lived in urban areas, often in very crowded conditions.

5. Skilled workers, called artisans, were needed in the South and the North. Special training or experience prepared artisans to work, as blacksmiths, bakers, or tailors. Pay was usually in cash. Artisans could work for others or open their own shops. They could lease or buy a shop. They would have to keep their own financial records and perhaps correspond in writing with suppliers and merchants.

6. Professional positions in fields like law or medicine were available in all areas of the country, but were more common in urban regions. Pay was usually in cash. Some education and some special training were required.

7. Buying and operating a farm in a developed area of the country was possible, if a buyer had cash. Such farms ranged from cotton plantations in the South to apple orchards in the Northeast to hog farms in Illinois. The buyer might have to put down an initial payment and then arrange to borrow the rest of the farm's price. A lender might charge interest and demand proof that the potential buyer could really earn a profit with the farm.

QUESTIONS FOR DISCUSSION

1. What were the skills and circumstances facing African Americans following passage of the 13th Amendment?

2. Describe the opportunities available to Americans generally in the 1860s and 1870s.

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Name________________________

ACTIVITY 2
ADDITIONAL FACTORS TO CONSIDER AS YOU DEVELOP YOUR HYPOTHESIS

The information which follows provides additional points to consider as you examine the costs and benefits of options facing African Americans.

1. To choose an opportunity, you must know that it exists. Knowledge about opportunities is available in different forms and amounts. For example, information can be found in books, newspapers, and school lessons; it can also be gained from friends, family, and employers.

2. If you see that a benefit is available, you may pursue the opportunity that will provide that benefit. But if you believe that drawbacks attached to a choice outweigh its benefits, you almost certainly will turn down that opportunity.

3. In the 1860s and 1870s racism was common throughout the United States. In the South some whites used violence and threats to influence the choices of African Americans. Violence and threats were also used in the North, although there were far fewer African Americans living in the North, so less racial conflict occurred there.

4. Although some schools for African Americans developed in the 1860s and 1870s, most were directed by the federal government, not by local authorities. From the 1870s until at least 1900, schools were not widespread or well funded in the South. Literacy rates for African Americans were lower than those for whites in the South.

5. African Americans worked hard after slavery to establish or reunite their families. African Americans could now be legally married. Families separated by slavery could now legally live together.

6. In order to pursue some opportunities, people must be mobile. How close is the opportunity? Can you reach it by foot? On horseback? Will you have to move your home? If you travel long distances, you may need to take a train and pay cash for this ride. If you do not want to move your family, and the opportunity is far away, you will have to live apart from your family or decide to move them with you.

QUESTION FOR DISCUSSION

Taking into account the information provided in Activities 1 and 2, form a hypothesis to explain the economic choices you think most African Americans would make after the passage of the 13th Amendment.

JIM CROW, BOYCOTTS, AND CONSUMER POWER

INTRODUCTION

History During the late 1800s and throughout the first half of the twentieth century, racial segregation was enforced throughout the South by legislation and by informal codes of culture and politics. African Americans in the South resisted the legal and social codes that kept them poor and powerless, but they had relatively little success until the 1950s.

Mystery In 1896, Homer Plessy failed in his attempt to have segregation struck down. In 1955, Rosa Parks succeeded. Why?

Economic History When African Americans were poor and dependent on whites, it cost whites little to impose the Jim Crow system and to ignore challenges to it. As African Americans began to earn higher incomes and take regular wage–paying jobs, however, their market power became clear. By withholding payment for goods and services, through organized boycotts, they raised the costs to whites of continued segregation; as the costs increased, whites found it increasingly in their interest to accede to the desires of African Americans.

CONCEPTS

Segregation
Boycott
Jim Crow Laws
Average Income

OBJECTIVES

♦ Explain how low incomes limited the alternatives available to African Americans.

♦ Identify ways in which higher incomes, cash purchases, and boycotts helped African Americans challenge segregation in the South.

♦ Demonstrate how segregation laws limited the economic, social, and political opportunities for African Americans.

♦ Identify the costs that segregation laws imposed on all residents of the South.

LESSON DESCRIPTION

Students examine typical Jim Crow segregation laws and discuss the costs of segregation. They examine an economic mystery about segregation,using the *Handy Dandy Guide*. Finally, they read and discuss an essay about Homer Plessy and Rosa Parks.

MATERIALS

One transparency each of Visuals 1, 2, and 3.
One copy for each student of Activity 1.

TIME REQUIRED

♦ One class period

PROCEDURE

1. Explain to the class that the purpose of this lesson is to examine the economic effects of Jim Crow laws used in the South beginning in the 1880s and continuing until the 1960s. Specifically, this lesson asks why segregation could be imposed in the 1880s and why it would be reduced beginning in the 1960s.

2. Display Visual 1 and discuss briefly the origin of the Jim Crow laws and the many practices associated with them. Point out that almost no matter was too small to escape Jim Crow regulation. Oklahoma once segregated telephone booths, and courts in Arkansas had separate bibles for use in swearing in white and African American witnesses.

3. Display Visual 2 to the class. Ask the students to consider why Rosa Parks was more successful. Was it because people in 1955 were nicer than people who lived in 1892? How might economic reasoning help to solve this mystery?

4. Display Visual 3, the *Handy Dandy Guide (HDG)*. Ask students to predict what might have changed people's behavior between 1892 and 1955. Stress that a change in the Jim Crow rules depended upon a change in the costs and benefits of such changes to whites. As it became clear that the combination of costs and benefits for maintaining segregation was no longer advantageous to its proponents, change became more certain.

5. Distribute Activity 1. After students have completed the reading, discuss it with the class. *Ask:*

A. What did Homer Plessy attempt to do? (Use a first class ticket to ride in a train car reserved for white passengers.)

B. What did the railroad company gain by refusing to let Mr. Plessy ride in the first–class car? (The railroad obeyed state law. It did not alienate white passengers traveling first class who preferred not to ride with Mr. Plessy.)

C. What did the railroad lose by refusing to let Mr. Plessy ride in first class? (Potential first–class African American passengers and white passengers who disagreed with the law were alienated. However, both groups at the time were extremely small in number.)

D. Why didn't African Americans vote to change Jim Crow laws? (Laws in southern states made it nearly impossible for blacks to vote.)

E. What did Rosa Parks do? (She refused to give up her bus seat to a white passenger.)

F. What did the bus company gain by having Ms. Parks arrested? (The company followed city laws. The arrest did not alienate white passengers who preferred not to ride with African Americans.)

G. What did the bus company lose by having Ms. Parks arrested? (African Americans, the bus company's largest group of customers, were alienated. Their boycott of the bus company caused a loss of revenue. Whites who disagreed with the law were also alienated.)

H. Would a boycott have worked as well in 1892? (Probably not. Too few African Americans could afford to ride in first–class railroad cars in 1892. Most African Americans had low income, and, because of sharecropping arrangements, very little cash income.)

I. What changes had occurred that made the 1955 boycott in Montgomery effective? (The income of African Americans had increased. They could choose alternatives other than the bus for transportation.)

J. Can consumers influence social change? (Yes. Buying or not buying specific products or services in large numbers provides producers with incentives to respect customers' wishes.)

K. Were economic actions like the boycott the only cause of this social change? (No. Court actions also contributed.)

CLOSURE

Review the lesson with a brief discussion. *Ask:*

A. Using economic reasoning, tell why Rosa Parks was successful in reducing segregation while Homer Plessy was not. What change had occurred in calculations people made about the benefits of segregation? (Increased average income of African Americans made segregation more costly to producers.)

B. Using economic reasoning, tell whether you think there is much chance of the United States returning to an era of widespread legally enforced racial segregation? (No. While the average income of African Americans still lags behind that of whites, it continues to improve, thus making African Americans too important to be ignored in the market.)

VISUAL 1
JIM CROW LAWS

Origin

The name Jim Crow apparently derived from a stereotyped image of African Americans in a song and dance act presented by Thomas D. Rice, an 1860s entertainer.

Jim Crow laws were adopted by many southern states in the late 1880s. They required separation of races in the use of public (and many private) facilities. Jim Crow laws also required state poll taxes and literacy tests, which reduced the number of black voters.

Practices

Jim Crow laws were applied from cradle to grave. They required racial segregation in many areas of public and private services, including:

- hospitals
- schools
- public parks
- railroad cars
- public buildings
- prisons
- restrooms
- restaurants
- lunch counters
- theatres
- buses
- hotels
- funeral homes
- cemeteries

VISUAL 2

ECONOMIC MYSTERY WHY WERE JIM CROW LAWS SUCCESSFULLY CHALLENGED IN 1955?

In 1892, Homer Plessy was refused a seat in a first–class railroad car, even though he had paid for a first–class ticket. He challenged the segregation laws in court, but he lost his case.

In 1955, Rosa Parks, an African American riding on a bus in Montgomery, Alabama, was told to give up her seat to a white passenger. She challenged the segregation laws, and she won.

Why?

VISUAL 3

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

Name________________________

ACTIVITY 1

HOMER PLESSY AND ROSA PARKS: HOW MUCH DOES IT COST TO RIDE "FREE"?

IN 1892, HOMER PLESSY, AN AFRICAN American, was refused a seat in a first–class railroad car, even though he had paid it. A law in the state of Louisiana, where he lived, banned black passengers from riding with whites. First–class railroad cars were for whites only, so Plessy could not ride in one. His only legal alternative was to ride in a railroad car for blacks, though such cars were usually much less comfortable and had fewer services than those provided in first class.

Homer Plessy was angered by the law, and angered by what he said was a denial of his right to purchase, and use, a first–class ticket. He took his case to court, but at every level the legal system decided against him. In a landmark decision in 1896, the Supreme Court of the United States decided to support the law that kept Homer Plessy from riding in the first–class car. *Plessy v. Ferguson*, the court's ruling, held that separating passengers by race did not violate the U.S. Constitution, even though the 14th Amendment prohibited the states from depriving citizens of "equal protection of the laws." Since blacks and whites both could travel by train, they received "separate but equal" treatment, the court decided. Certainly Homer Plessy and his supporters disagreed with this idea of legal segregation (known as the "separate but equal" doctrine). But in 1896 they could find no effective way to change the laws or to convince the railroads to accept extra revenue from African American customers desiring first–class railcar accommodations.

ROSA PARKS

In 1955, an African American named Rosa Parks was told to give up her seat on a city bus to a white passenger, even though she had paid the fare and held the seat for several stops before the white passenger boarded the bus. A law in the city of Montgomery, Alabama, where she lived, required that black passengers sit only in the back sections of city buses, and also required that if the "all white" front sections became filled, black passengers could be ordered to give up their seats. Because the law supported the idea that no white passenger should ever have to sit next to a black rider, if one white passenger boarded when all of the white seats were filled, all of the black passengers in the first row of the black section had to give up their seats. Rosa Park's only alternative seemed to be to stand up, to give up her seat so a white man could sit alone in the first row of the seating for black riders.

Rosa Parks was angered by the law, and angered by what she saw as a denial of her right to have a seat that she had paid for. She took her case to court. But she also worked to mobilize other African Americans in Montgomery to boycott the city bus system. Even as her case worked its way through the court system, Rosa Parks and thousands of others refused to ride the segregated buses. With the guidance of Reverend Martin Luther King, at that time a local pastor, and other civic leaders in the black community, the boycott held for more than a year. Rosa Parks and her fellow protestors had to walk long distances to work or share rides with friends and strangers; some were even offered rides by white employers.

The bus company began to lose money. Before the boycott, most of its customers had been African Americans. Soon other business leaders reported that they also were affected by the boycott and were losing money. They urged the city to change the law. Finally, late in 1956, the Supreme Court of the United States chose not to review a lower court decision that said the "separate but equal" doctrine could not be used to justify a law like Montgomery's bus law. In effect, Montgomery's bus segregation was declared to be in violation of the U.S. Constitution. Rosa Parks and her supporters had found an effective way to challenge and change the laws.

WHY WAS ROSA PARKS SUCCESSFUL?

Why did Rosa Parks find a way to strike down a law that kept her from buying and receiving every service available to white customers? Why wasn't Homer Plessy able to strike down the law that stopped him from using the first-class ticket he had purchased?

To answer these questions, we must consider the circumstances of the 1890s and the 1950s. What important changes occurred during these years that gave Rosa Parks alternatives that Homer Plessy did not have? What were the rules in each situation? Who made the rules? Who benefited from the rules? Who lost? How did gains and losses change?

JIM CROW LAWS

In the 1890s, most African Americans were still living in the South—the first generation to do so after slavery. Racism was widespread, despite passage of what were called the Civil War Amendments to the U.S. Constitution—the 13th, 14th, and 15th Amendments. The 13th Amendment abolished slavery. The 14th and 15th granted citizenship rights to blacks, required states to guarantee equal protection of the laws, and granted voting rights to African American males. Yet, most white Americans continued to think that some separation between the races was desirable.

By the 1890s, this belief in separation was manifest in a system of state laws and local ordinances called Jim Crow laws, which kept the races apart. In many states these laws established separate schools for white and black children. Maintaining separate schools was expensive. Southern schools were usually poorly financed compared to schools in other parts of the country. Southern officials often spent less state money on schools for African American children. This practice imposed great hardships on black children.

Public officials, however, didn't have to worry about negative reactions from the black community. Beginning around 1890, laws in many states made it very difficult for blacks to register and vote. With few or no blacks voting, white officials could ignore black concerns without fear of losing political office. Throughout the South, by the early 1900s, the Jim Crow practices meant that towns often had no libraries, parks, or other public services available for African American residents.

Private facilities were also segregated. The Jim Crow law and customs spread to restaurants, stores, hotels, and other facilities. Sometimes black customers were served at separate counters or areas within a store that had been barricaded.

Why would businesses drive away black customers in the 1890s? The answer relates to black poverty and white boycotts. Most business owners felt that by serving black customers they would lose their white customers. They were afraid that white customers would not spend money in their stores if blacks were served on an equal basis. A loss of white customers would cause a major reduction in the store owner's income, because blacks did not have enough purchasing power to compensate for a decline in spending by white customers. In the 1890s most black citizens were sharecroppers or tenant farmers. They farmed on lands they did not own, in return not for cash but for a share of the crop they had raised. Very little cash was used in the South at this time. Instead, sharecropping involved a combination of a credit and a barter system.

INCREASING AVERAGE INCOME

Suppose Homer Plessy had encouraged African Americans to boycott Louisiana railroads in the 1890s. How much influence would it have had on railroad revenue? Very little, because so few African Americans traveled by first-class passage, given their low incomes.

Over the years, African Americans continued to challenge Jim Crow laws, and they also improved their economic condition. During World War I and World War II, many blacks moved north and west to take jobs in the nation's factories. They earned more there than they had earned as sharecroppers. In the South, blacks began to move to cities and take jobs that paid a wage. Slowly, black incomes rose. In 1939, the average annual income of a black family was $489, a little over one-third of the average white family income of $1,325. By 1949, the average annual black family income was $1,533, close to half of the $3,138 earned by an average white family. And in 1955, when Rosa Parks refused to give up her seat, average black family income was more than half of the average white family income ($2,418 to $4,331).

Changes also occurred in other areas. Most of the old arguments about the inferiority of African Americans were discredited. Many white

Americans joined the struggle to gain equality for all citizens.

Technological changes also made it difficult to maintain Jim Crow laws. For many white Americans automobiles replaced the railroad and bus as a mode of transportation. As a result by 1955, a majority of bus users were black Americans. This situation gave them consumer power. The bus companies depended on black ridership to stay in business. Other businesses also depended on black customers. They could no longer offer poor services, or refuse to provide services, without losing revenue.

So, why did Rosa Parks succeed in getting a racist law struck down? Many changes contributed to this accomplishment, including growth in the power of the black consumer.

QUESTIONS FOR DISCUSSION

1. What did Homer Plessy attempt to do?

2. What did the railroad gain by refusing to let Mr. Plessy use his paid ticket to ride in the first-class car?

3. What did the railroad lose by refusing to let Mr. Plessy ride in the first-class car?

4. Why didn't African Americans vote to change Jim Crow laws?

5. What did Rosa Parks refuse to do?

6. What did the bus company gain by having Ms. Parks arrested?

7. What did the bus company lose by having Ms. Parks arrested?

8. Would a rail boycott have worked in 1892?

9. What changes occurred that made the bus boycott effective in Montgomery?

10. Can consumers influence social change?

11. Was it economic actions (like the boycott) alone that caused social change?

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SAMPLE TEST ITEMS

LESSON 1

1. Given the skill levels and knowledge of economic opportunities, the decision of many African Americans to remain in the South after the Civil War was a(n)

   A. Arbitrary decision.
   B. Curious decision.
   ✓C. Economizing decision.
   D. Irrational decision.

LESSON 2

1. Suppose the school board decided to segregate all left-handed students from right-handed students. List at least three new rules that your schools would have to adopt. List any costs and benefits this segregation policy would create. Compare the consequences of this policy to the consequences of segregation in the South from 1900 to 1968.

Possible answer: Students should describe rules keeping left-handed students in separate classrooms, separate cafeterias, separate gymnasiums; requiring students to enter the building by separate doors and to use lockers in separate areas. They should note the costs of adding teachers to handle the extra problems of administering this separation, and the costs of restructuring the school building, etc. They should conclude that this policy is very costly, providing few benefits to either right- or left-handed students. Similarly, the costs of segregation in the South were also high, providing few benefits to either whites or African Americans.

2. How did segregation rules contribute to the slow economic growth of southern states during the early 1900s?

   A. It reduced voluntary trade between southern whites and blacks.
   B. It increased the costs of schools and other public services.
   C. It reduced incentives to successful Northern businesses to open facilities in the South.
   ✓D. All of the above.

3. Suppose you are a white Southern grocery store owner in 1965, opposed to racial segregation. You think segregation is morally wrong and economically harmful to the community. Therefore, you choose to let both blacks and whites shop on an equal basis in your store. What do you anticipate will be the costs and benefits of your action?

Possible answer: Benefits: You will be honest in your actions and beliefs. African American customers may purchase items at your store. Costs: It is unlikely that you will have much support from other Southern whites. Old customers and friends may boycott your store. You may get in trouble for breaking the law.

LESSON 3

1. In 1896, the Supreme Court decided *Plessy v. Ferguson*, ruling on a case brought to the court by Homer Plessy, an African American from Louisiana. The ruling said:

   A. That all African Americans should be given the right to use public facilities available to whites, without any special limits or restrictions.
   B. That the State of Louisiana had to end slavery within five years.
   C. That John Ferguson had to give Homer Plessy a job on his railroad.
   ✓D. That separating blacks and whites on trains or elsewhere was legal, as long as the separation gave "equal" treatment to both groups.

2. As a leader of a boycott of a business, you want your supporters to

   A. Buy more of the company's products.
   B. Help sell the company's products.
   C. Urge other people to buy the company's products.
   ✓D. Choose not to buy the company's products.

3. The purpose of a boycott is to accomplish which of the following?

   A. Cause people to make different consumer choices.
   B. Interrupt voluntary trade.
   C. Reduce benefits to producers.
   ✓D. All of the above.

4. During the Montgomery bus boycott, thousands of African Americans refused to use the city bus services for a year. The boycott was successful causing the bus company to eliminate segregated seating. Many other local business leaders also feared a boycott and came to the conclusion that segregation was too costly to maintain. Suppose that half of Montgomery's African American population had not supported the boycott but had used the buses as usual. Do you think local business leaders would have been as willing to do away with segregation?

Possible answer: Probably not. The boycott demonstrated the full consumer strength of black customers and made businesses realize they depended on voluntary trade with black customers. For business leaders to choose integration, they must have thought that the cost of boycotts with segregation was greater than the benefits of continued segregation. Integration allowed them to reduce the costs of consumer boycotts.

UNIT SIX: OVERVIEW

MONEY AND POLITICS 1880–1914

UNIT 6 FOCUSES ON EFFORTS BY U.S. farmers to increase inflation, and on the "free silver" controversy. These topics provide a context for studying efforts by the U.S. Congress to reduce damage done to the economy by periodic economic contractions.

Lesson 1 asks why farmers favored inflationary prices during the late 19th century. Students are introduced to the ideas of inflation and deflation. They learn that people strive to choose price levels, as they strive to make other advantageous choices.

Lesson 2 examines the "free silver" controversy. Students carry out a simulation activity and study the quantity theory of money in order to examine the relationships among the amount of money in circulation, average prices, and the amount of goods and services being produced.

Lesson 3 explains the money panics of the 19th century and their role in creating support for the establishment in 1913 of the Federal Reserve System.

RAISING INFLATION ON THE FARM

INTRODUCTION

History In the years between 1870 and 1900, many U.S. farmers organized themselves politically and lobbied for a variety of new laws aimed at fostering inflation.

Mystery From 1870 to 1900, the prices U.S. consumers paid for goods and services generally declined. For U.S. farmers, this meant lower costs, since prices for supplies and equipment declined. Yet, U.S. farmers wanted to foster inflation. Why?

Economic History Many farmers at the close of the 19th century held mortgages on their land, buildings, and equipment. Because of deflation, they paid these mortgages off with dollars worth more than the dollars they had originally borrowed. As debtors, they were hurt by deflation; they sought price levels that would reduce the real cost of paying off their debts.

CONCEPTS

Deflation
Inflation
Debtor
Creditor

OBJECTIVES

- Study definitions of *inflation* and *deflation.*
- Investigate the consequences for debtors of deflation.
- Investigate the effects of inflation on mortgage payments.
- Evaluate changing price levels as influences on people's decisions to borrow or lend.

LESSON DESCRIPTION

This lesson examines the financial situation of a hypothetical U.S. farmer in the 1890s. It begins by posing an economic mystery about why farmers in the 1890s wanted inflation. It proceeds by defining *inflation, deflation, debtor, and creditor.* Then students complete a worksheet on farm finances during inflationary and deflationary times. Finally, they draw conclusions on how inflation and deflation influence people's decisions to borrow or lend—to become debtors or creditors.

TIME REQUIRED

- One or two class periods

MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activities 1 and 2.

PROCEDURE

1. Explain to the class that beginning in the 1870s farmers in the Midwest formed new political parties such as the Greenback Party and the Populist Party. They demanded that the money supply be changed to "greenback." Greenbacks were currency issued during the Civil War. After the war, the government began to withdraw them from circulation. Farmers also wanted silver, which was more abundant than gold, to be accepted as part of the money supply. They hoped that this change would create inflation. Today people around the world are fearful of inflation. Our task is to find out why farmers in the 1870s wanted to create inflation.

2. Distribute Activity 1 and ask the class to read the mystery. Ask students to speculate about possible explanations. Display Visual 1 and review the Handy Dandy Guide. Remind the students that economic reasoning suggests that the farmers must have thought they would benefit somehow from inflation.

3. Display Visual 2, with its definitions of *inflation* and *deflation*. Show the *inflation* definition first. Ask students to consider carefully what it means to have the average of *all* prices go up as opposed to the price of *one* product going up. Explain that if all prices go up, people need more income to maintain their purchasing power and standard of living. If the price of one or a few items goes up, the effect on purchasing power may be zero if we don't purchase the higher priced good.

4. Ask students to give examples of times when increases in average prices influenced their

purchasing decisions. Then ask them if they would prefer to have average prices decline. (Most students will be in favor of lower prices.)

5. Show students a definition of *deflation* on Visual 2. Stress that deflation involves an average decline in prices.

6. Explain to the class that farmers in the Populist Party and the Greenback Party lived during a period of deflation. Yet they wanted what we often have now—inflation.

7. Distribute Activity 2 to the class and ask them to answer the Discussion Questions in pairs. When they have answered the questions, discuss the questions in Parts I and II.

Part I

A. What happened to the farmers' expenses for personal items and farm supplies each year? (Declined 10 percent.)

B. What happened to the farmers' mortgage and tax costs each year? (Remained constant.)

C. What happened to the farmers' income in each year? (Declined by 10 percent.)

D. What happened to the farmers' savings in years 2 and 3? (Declined.)

E. Who—debtors or creditors—gained during this period of deflation? (Creditors. The dollars they were paid back on loans could buy more products than the dollars they loaned out originally.)

Part II

A. What happened to the farmers' total income each year during this period of inflation? (Increased.)

B. Who—debtors or creditors—gained during this period of inflation? (Debtors. The dollars they paid back were worth less—could buy fewer products—than the dollars they borrowed originally.)

C. Why might a stable price level be better than inflation or deflation? (A stable price level would favor neither debtors or creditors.)

D. Display Visual 1 to the class again. Which statements in the *Handy Dandy Guide* best explain the farmers' interest in inflation? (The rules of the economic system permit price levels to rise and fall. People will seek price levels that benefit them. Inflation, in this case, acts as an incentive because an increase in the level of prices appears to make farmers better off.)

CLOSURE

Explain to the class that people will seek the price levels which are best for them. *Ask:*

A. Which groups in the United States today might favor inflation? (People with high debt loads. People with assets like mortgaged real estate may benefit from inflation.)

B. Which groups in the United States today might oppose inflation? (People with fixed income; those who have large amounts of money held in savings; lenders.)

VISUAL 1

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

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VISUAL 2

INFLATION AND DEFLATION

Inflation is a continuing rise in the average price of all goods and services. The purchasing power of a dollar decreases during inflation.

Deflation is a continuing decline in the average price of all goods and services. The purchasing power of a dollar increases during deflation.

Name________________________

ACTIVITY 1
THE PEOPLE'S PARTY INFLATION MYSTERY

What was the People's Party, and why did it favor inflation?

Sockless Jerry Simpson adopted his nickname to prove his sympathy for America's struggling farmers. Mary Yellin' Lease shouted at farmers to "raise less corn and more hell." Other leaders of the People's Party had less flamboyant images but, like Simpson and Lease, they worked hard to unite the rural residents of Nebraska, Kansas, and other farm states. Their goal? To create a new political movement. At the end of the 19th century the People's Party wanted to dominate Congress and win the White House.

Also known as Populists, the supporters of the People's Party never managed to achieve those goals, but the Party did win many local elections in farm states in the West and South. It nominated two candidates for the presidency, in 1892 and 1896, and commanded well over a million votes during the early 1890s. The Populists called for many changes in local and national government, and some of their ideas (such as a federal income tax and direct election of U.S. Senators by the people) became law in the 20th century.

But more than anything, the Populists wanted inflation. They called for changes in currency laws and finance programs and devised many complex notions for reorganizing the nation's economy. All of these changes, had they been implemented, would have reversed the deflation that a generation of Americans had experienced since the Civil War. The Populists believed that inflation would cure most of their problems—the problems of farmers who owed money. Why?

QUESTION FOR DISCUSSION

Using economic reasoning, tell why you think the Populists wanted inflation.

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Name______________________

ACTIVITY 2
WHY WOULD FARMERS WANT TO RAISE INFLATION?

PART I

Imagine that you are a farmer in 1890. You raise corn and sell it to earn your income. Each year corn prices move up or down at about the same rate as the average of all prices in the United States. All your farming costs also move at the same rate. But there is one exception to this cost structure. One year ago you borrowed money to buy your farm. You took out a loan to buy the farm and promised to make yearly mortgage payments of $500 to pay off the loan. Compute the totals in the following tables and find out what happens to your budget.

Expenses	Year One *APL = 100	Year Two APL = 90	Year Three APL = 81
Personal items	$ 250	$ 225	$ 202.50
Farm supplies	300	270	243.00
Mortgage	500	500	500.00
Taxes	50	50	50.00
Total costs	1100	1045	995.50
Total Income	1200	1080	972.00
Savings (Income - Costs)	100	35	-23.50

*APL = AVERAGE PRICE LEVEL

QUESTIONS FOR DISCUSSION

1. What happened to the farmer's expenses for personal items (food, clothing) and farm supplies each year?

2. What happened to the farmer's mortgage and tax costs each year?

3. What happened to the farmer's income in each year?

4. What happened to the farmer's savings in years 2 and 3?

5. Who—debtors or creditors—gained during this period of deflation?

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PART II

Now investigate what might happen to the farmer's budget in the context of a 10% rate of inflation each year. Let's assume that the farmer's income and expenses, personal items, and farm supplies also rise as fast as the average of all prices, but taxes and mortgage payments remain the same.

Expenses	**Year One** ***APL = 100**	**Year Two** **APL = 110**	**Year Three** **APL = 121**
Personal items	$ 250	$ 275	$ 302.50
Farm supplies	300	330	363.00
Mortgage	500	500	500.00
Taxes	50	50	50.00
Total costs	1100	1155	1215.50
Total Income	1200	1320	1452.00
Savings (Income - Costs)	100	165	236.50

*APL = Average Price Level

QUESTIONS FOR DISCUSSION

1. What happened to the farmer's total income each year during this period of inflation?

2. Who—debtors or creditors—gained during this period of inflation?

3. Why might a stable price level be better than inflation or deflation?

4. Which statements in the *HDG* help you to explain why the farmers wanted inflation?

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FREE SILVER OR A "CROSS OF GOLD"

INTRODUCTION

History Late in the 19th century, Americans fought a political battle over monetary policy. Farmers and most other residents in the West and the South tended to support the Greenback and Free Silver movements, as championed by the Populist Party. Business leaders and many other residents of the industrial Northeast supported the gold standard and what they called "sound money."

Mystery As more western states entered the Union, the political strength of farmers and silver mining interests grew. The Sherman Silver Purchase Act of 1890 was passed to accompany the Bland–Allison Act of 1878. These laws added $500 million to the U.S. money stock. Still, prices continued to fall. Why?

Economic History Business leaders in the Northeast and farmers in the West had good reasons for their positions regarding the costs and benefits of inflation. However, in focusing on the supply of money in circulation, all parties sometimes failed to notice increases in the quantity of products offered for sale. The world supply of wheat and other farm products increased greatly during the late 19th century as new lands opened in the American West, Canada, Australia, and Argentina. The increases in the quantity of agricultural goods exceeded the additional silver entering the American money supply, causing deflation throughout the period.

CONCEPTS

Money
Inflation
Deflation

OBJECTIVES

♦ Analyze the relationship between the stock of money in the economy and prices and output.

♦ Explain how unlimited printing of greenbacks or coinage of silver would have affected the money supply, prices, and/or output.

♦ Explain how a gold standard, especially when there is little or no growth in the quantity of gold available, restrains inflation.

LESSON DESCRIPTION

Students are introduced to an economic mystery involving money. They participate in a simulation activity that demonstrates the effect upon prices of growth in the money stock. They complete a work sheet that explains the quantity theory of money. They read a handout explaining the effect of a gold standard on price levels.

TIME REQUIRED

♦ One or two class periods

MATERIALS

One transparency each of Visuals 1 and 2; one copy for each student of Activities 3 and 5. Cut out enough "dollars" and "bushels of wheat" from Activities 1 and 2 to perform the simulation. If Activity 4 (see Procedure 15) is used, prepare one copy for each student.

PROCEDURE

1. Explain that this lesson will enable students to predict how changes in the size of the money stock can affect the average level of prices. Tell students that the goal of U.S. farmers in the 1890s was to increase the amount of money available; they believed that this would have the effect of raising the prices they could get for their crops. Display Visual 1. Invite the students to speculate on possible explanations.

2. To illustrate the effect of money on prices, use the following brief simulation. Divide the class in half. Half the students should take on the role of farmers. Each farmer is given three bushels of wheat. The remaining students are buyers; they are given $5.00 each. (Use the patterns in Activities 1 and 2.)

3. Explain that the goal of the farmers is to sell all their wheat for as much money as possible. The goal of the buyers is to buy as many bushels of wheat as they can, paying the lowest possible prices. Students are given 10 minutes to buy and sell wheat, negotiating the price as they go.

4. Whenever a sale is made, be sure that the buyer marks on the back of the wheat card the price she or he paid.

5. At the end of the 10-minute period, ask each seller how many dollars each made and each buyer how many bushels of wheat each has purchased. Then make a chart on the board (or use Visual 2 on the overhead projector) and ask each student who holds wheat to report the price that was paid for each bushel.

6. For the second round of the simulation, give each student who now holds dollars 3 additional dollars. Do not, however, give students who now own wheat any additional bushels.

7. Begin a second 10-minute round of trading. Buyers are again responsible for recording the new selling price on each wheat card. Tell the buyers to record the second price in parentheses, to distinguish the second-round prices from the first. Again, make a chart on the board or use Visual 2 to record the prices. When second-round prices are recorded on the chart, calculate the average price in both rounds. The average price in round 2 will have risen.

8. Focus the attention of the class on the increased average price. Explain that prices rise when the stock of money increases faster than the amount of goods and services available to be purchased. Among other tools, economists use the *quantity theory of money* to explain this relationship. This theory can be expressed in a simple equation, $MV = PQ$, in which M represents the amount of money in circulation, P the average price level, and Q the quantity of products that are purchased in the economy. V represents velocity and is generally assumed constant.

9. Distribute Activity 3 and ask the class to practice using the quantity theory of money in small groups.

10. Discuss each question with the whole class. The answer to the first question is that the average price will rise to $20.00.

11. Explain that the Greenback Party sought to increase M as a way to increase inflation. This is why the Greenback Party opposed the recall of the paper dollars (greenbacks) issued during the Civil War and why the Free Silver movement wanted the U.S. Treasury to purchase all silver that was brought to the U.S. Mint and to place silver coins in circulation.

12. Tell students that, in spite of the Greenback Party, most greenbacks were recalled from circulation by the late 1870s, and those that remained were made redeemable in gold. Although silver backers were never able to achieve their goal of unlimited coinage of silver, they did secure the passage of the Bland-Allison Act in 1878 and the Sherman Silver Purchase Act in 1890, adding a total of over $500 million to the U.S. money stock. However, during the 1870s, 1880s, and 1890s, farm prices and prices in general continued to fall. The answers to questions 2 and 3 in Activity 3 explain what happened.

13. The answer to question 2 on Activity 3 is that the average price will remain at $10.00. The answer to question 3 is that the average price will fall to $5.00.

14. Explain that the situation illustrated by questions 2 and 3 in Activity 3 actually reflected the world economic situation in the late 19th century. The world supply of wheat and other farm products increased greatly during this period. New lands were being opened in the American West as well as in Canada, Australia, Argentina, and other parts of the world. These increases in the quantity of agricultural goods exceeded the value of the additional silver entering the American money supply, resulting in the continued decline of average prices.

15. Remind students that those who were opposed to inflation were the residents of the manufacturing states of the Northeast. "Sound money" advocates wanted the value of the dollar to stay the same or fall, and they supported the adoption of a gold standard as a way to achieve this.

16. Distribute Activity 4, "What is a Gold Standard"? After students have read the handout, ask:

A. Why did the return to the gold standard cause deflation? (Using MV = PQ, if a nation has a limited amount of gold to back its money supply, PQ can't grow much. When the United States returned to the gold standard, deflation occurred as M fell in relation to PQ.)

B. Who benefited from deflation? (Creditors.)

C. Who was hurt by deflation? (Debtors.)

D. Why did people in the Northeast tend to favor deflation? (Prices had risen during the Civil War, making U.S. exports less competitive.)

CLOSURE

Review the main idea of this lesson—that changes in the size of the money stock can affect prices. A simple quantity theory of money, MV = PQ, explains this relationship. Tell students that in the late 1890s, major gold strikes in Alaska and South Africa added substantially to the world gold supply. A new process was discovered that made it easier and cheaper to refine gold from gold ore. At the same time, the United States began to export more goods than it imported, and this caused more gold to flow into the United States to pay for the difference between U.S. exports and U.S. imports. Ask students to predict what probably happened to the price level of the Unted States. (Mild inflation was characteristic of the U.S. economy from 1900 to the beginning of World War I.)

VISUAL 1
THE GREAT MONEY MYSTERY

As more western states—Montana, North Dakota, South Dakota, Washington, Idaho, and Wyoming—entered the Union, the political strength of farmers and silver mining interests grew. The Sherman Silver Purchase Act of 1890 was passed to accompany the Bland–Allison Act of 1878. These laws added $500 million to the U.S. money stock. Still, prices continued to fall.

Why?

VISUAL 2
WHEAT PRICES

ROUND 1	ROUND 2
$5	
$4	
$3	
$2	
$1	

AVERAGE PRICE = ______ **AVERAGE PRICE =** ______

From *United States History: Eyes on the Economy,* ©National Council on Economic Education, New York, N.Y.

ACTIVITY 1
DOLLARS

1.00 1.00 ONE DOLLAR 1.00 1.00	1.00 1.00 ONE DOLLAR 1.00 1.00
1.00 1.00 ONE DOLLAR 1.00 1.00	1.00 1.00 ONE DOLLAR 1.00 1.00
1.00 1.00 ONE DOLLAR 1.00 1.00	1.00 1.00 ONE DOLLAR 1.00 1.00
1.00 1.00 ONE DOLLAR 1.00 1.00	1.00 1.00 ONE DOLLAR 1.00 1.00
1.00 1.00 ONE DOLLAR 1.00 1.00	1.00 1.00 ONE DOLLAR 1.00 1.00
1.00 1.00 ONE DOLLAR 1.00 1.00	1.00 1.00 ONE DOLLAR 1.00 1.00

ACTIVITY 2
WHEAT BUSHELS

1 1 BUSHEL OF WHEAT 1 1	1 1 BUSHEL OF WHEAT 1 1
1 1 BUSHEL OF WHEAT 1 1	1 1 BUSHEL OF WHEAT 1 1
1 1 BUSHEL OF WHEAT 1 1	1 1 BUSHEL OF WHEAT 1 1
1 1 BUSHEL OF WHEAT 1 1	1 1 BUSHEL OF WHEAT 1 1
1 1 BUSHEL OF WHEAT 1 1	1 1 BUSHEL OF WHEAT 1 1
1 1 BUSHEL OF WHEAT 1 1	1 1 BUSHEL OF WHEAT 1 1

Name____________________

ACTIVITY 3
THE QUANTITY THEORY OF MONEY MV = PQ

WHEN THE AMOUNT OF MONEY (M) IN circulation increases, either prices (P) will rise or the quantity (Q) of goods and services sold will rise. Let's say that the amount of money in circulation is $100, that there are 10 products that can be sold, and that the price of each product is $10. You can fit these figures into the quantity theory equation in this way:

$10 x 10 products = $100

QUESTIONS FOR DISCUSSION

1. What will happen to P if M becomes $200 and Q doesn't change?

2. What will happen to P if M becomes $200 and Q becomes 20?

3. What will happen to P if M becomes $200 and Q becomes 40?

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Name______________________

ACTIVITY 4
WHAT IS A GOLD STANDARD?

A NATION HAS A "GOLD STANDARD" when other forms of money—such as paper, silver, or the money of other nations—can be exchanged freely for a fixed amount of gold. Gold *backs* (guarantees the value of) the money of a nation that uses a gold standard. The United States formally adopted a gold standard in 1900, but it had been informally on the gold standard since 1873, when the Specie Resumption Act went into effect. Why do you think the U.S. government moved toward a gold standard?

A nation on a gold standard is usually protected from inflation. Bank reserves are held in the form of gold. A bank must be prepared to pay out gold in exchange for paper money or checks written on accounts at the bank. The nation's money stock is limited by the total amount of gold reserves held in the banking system. The quantity theory of money ($MV = PQ$) shows that if a nation has a limited amount of gold to back its money supply, PQ can't grow beyond the level permitted by the gold stock. After the Civil War, when greenbacks had circulated as money, the return to the gold standard actually caused deflation (falling prices), as M fell in relation to PQ.

Is this good or bad? It depends on who you are. Late in the 19th century, people who had a lot of money didn't want to see the purchasing power of that money decline. If they were lenders, they didn't want borrowers to pay them back in dollars of lower value than the dollars borrowed. Deflation in the late 19th century actually increased the value of the money used to repay debts.

Debtors, of course, lose in a period of deflation. Also, periods of unemployment can result from falling prices. Lower prices can discourage producers. If they decide to produce less, they fire workers. *In the long run*, lower prices may create more jobs as consumers are able to buy more, but workers who lose jobs *now* don't find much comfort in the prospect of a new job in a year or two. This was especially true in the 19th century, when there were no unemployment benefits to protect U.S. workers from the consequences of job loss.

Many people in the industrial states of the Northeast had another good reason to support deflation. Prices had risen dramatically during the Civil War, and the end of the war left American exports priced too high for world markets. Imports undercut sales of American products in the American marketplace. The deflation of the post–Civil War decades made American industry more competitive in the global marketplace.

QUESTIONS FOR DISCUSSION

1. Why did the return to the gold standard cause deflation?

2. Who benefited from deflation?

3. Who was hurt by deflation?

4. Why did people in the Northeast tend to favor deflation?

THE FEDERAL RESERVE SYSTEM IS ESTABLISHED

INTRODUCTION

History Money panics caused severe problems for U.S. banks and depositors throughout much of the 19th century.

Mystery The pyramid problem looks unsolvable. To cover their deposits and maintain a credit pool, banks need reserves. If they deplete their reserves, what choice is there but to borrow more from a larger bank?

Economic History Small, medium size, and large banks operated in a sort of pyramid system, whereby smaller banks removed deposits from larger ones when heavy withdrawals depleted their reserves. When many depositors withdrew funds simultaneously at many levels, however, the system could break down. Then banks had to cut back sharply on lending, thereby reducing the money supply and sending ripple effects (decreased business activity, layoffs) throughout the economy.

It took a change in the rules to alleviate this problem. The change came with the Federal Reserve Act, passed by Congress in 1913. The Act created a new system of regional Federal Reserve Banks. It also created Federal Reserve Notes—a new form of currency that Federal Reserve Banks could pay out for use by commercial banks as a new sort of reserve against deposits. Besides providing a new source of reserves, the new system also provided a way to change the size of the money stock—through regulation of the rates of interest paid by commercial banks borrowing from "The Fed."

Please Note: Students should understand how a fractional reserve banking system works in order to complete this lesson. Review Unit 7, Lesson 2, before beginning this lesson. Lesson 2 in Unit 7 can also be used as an introduction to this lesson.

CONCEPTS

Money
Fractional Reserve Banking
Bank Reserves

OBJECTIVES

◆ Recognize that, when banks have insufficient reserves and are unable to get more reserves, they must reduce the net amount of their loans.

◆ Understand that when bank loans are reduced, the money supply shrinks, business activity falls, and people lose jobs.

◆ Explain how the power given to the Federal Reserve System to accept loans as collateral for new currency added total reserves to the banking system.

LESSON DESCRIPTION

The teacher shows a visual that demonstrates how reserves of small, medium size and large U.S. banks were interrelated in the 19th century. The teacher distributes a handout that demonstrates how money panics spread throughout the U.S. banking system. Students use two handouts that explain how the establishment of the Federal Reserve System reduced the problems of bank failure and the money panics resulting from bank failure.

TIME REQUIRED

◆ One class period

MATERIALS

One transparency of Visual 1.

One copy for each student of Activities 1, 2, and 3.

PROCEDURE

1. Explain that the purpose of this lesson is to examine the causes of money panics. Remind students that the United States has a fractional reserve banking system in which banks *create* money through the process of making loans. Tell students that in the post–Civil War decades, small country banks made loans based on reserves of three types: specie (gold or silver), national bank notes issued by the government, or deposits at larger city banks. City banks, in turn, kept some reserves in accounts at the big banks of New York City, the financial center of the United States.

2. Display Visual 1 to the class. Tell students that a bank keeps reserves so that if many people withdraw money at one time, the bank can use its reserves cover the withdrawals. During the last half of the 19th century, a country bank that experienced an unusual number of withdrawals could call on a city bank with which it had an account, to draw its reserves from that account. A city bank, in turn, could withdraw from accounts it kept at the big financial center banks in New York City. Economists call this *pyramiding reserves* because of the relationship of many small banks at the bottom of the pyramid to a few very large banks at the top. The trouble with pyramiding was that problems originating with banks at the bottom of the pyramid could spread all the way to the top.

3. Explain that New York City banks, in order to get money quickly when they experienced large withdrawals from the banks with which they had accounts, issued special kinds of loans called *call loans*—loans to businesses or to securities brokers that had to be repaid within 24 hours if banks called the loans in. These loans were very useful to certain borrowers. However, the sudden recall of such loans could cause businesses to fail.

4. Distribute Activity 1. Divide students into groups and have them complete the activity. Tell them that the most important part of Activity 1 is the last question. If you have younger or less able students, you may want to go through the activity with the entire class.

Answers to Activity 1:

After $20,000 was withdrawn, Elmer's bank had $480,000 in deposits and $30,000 in reserves. To maintain the 10% reserve ratio, Elmer needed $48,000 in reserves; in other words, he was short by $18,000. After Elmer's bank withdraws $18,000 from the Last National Bank of Omaha, LNB has $4,982,000 in deposits and $482,000 in reserves. LNB's reserves are short by $16,200.

5. In answer to the last question in Activity 1, explain that in the 19th century it was difficult for a bank to get additional reserves without depleting the reserves of another bank. This was a major problem. There was a limited amount of gold in the country, and national bank notes were redeemable in gold. Therefore, the total amount of reserves available basically was fixed.

6. Distribute Activity 2. After students have completed the reading, discuss the following:

A. Explain how the Panic of 1907 and the actions of J. Pierpont Morgan set the stage for the passage of the Federal Reserve Act. (Morgan was able to assemble a sufficient credit pool to stop the Panic of 1907. This showed that it was possible to avert a panic by making credit available. The National Monetary Commission therefore recommended the establishment of the Federal Reserve System.)

B. How did the establishment of the Federal Reserve System make it possible for a bank to get additional reserves without withdrawing them from another bank? (A bank could now get additional reserves in the form of Federal Reserve Notes by pledging some of its loans as collateral for a reserve loan from the Federal Reserve District Bank.)

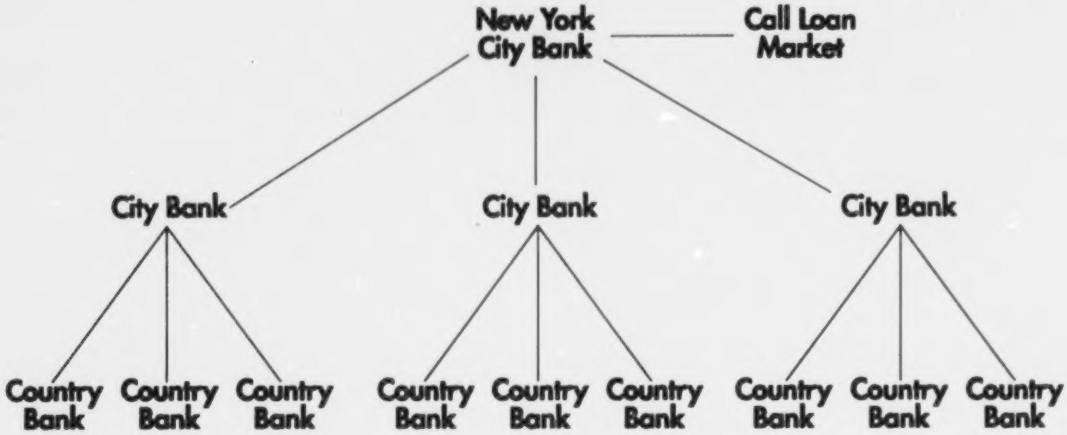
C. Were all banking system problems solved by the establishment of the Federal Reserve System? (No. Banks continued to fail, but at a reduced rate. However, during the Great Depression, there was a disastrous wave of bank failures.)

CLOSURE

To review the ability of the Federal Reserve to add new reserves to the banking system, distribute Activity 3 and have students discuss their answers.

(Before the establishment of the Federal Reserve System, Acme Bank would probably have had to refuse to extend John's loan, John would have lost his business, and his workers would have been unemployed. After the Federal Reserve Act went into effect, Acme Bank would have been able to get extra reserves and extend the loan, John would have kept his business, and his employees would have kept their jobs.)

VISUAL 1
PYRAMIDING RESERVES


New York City Bank
Call Loan Market
City Bank
City Bank
City Bank
Country Bank
Country Bank
Country Bank
Country Bank
Country Bank
Country Bank
Country Bank
Country Bank
Country Bank

Name________________________

ACTIVITY 1

HOW A FEW FARMERS IN NEBRASKA COULD MESS UP THE CREDIT MARKET IN NEW YORK CITY

ELMER SCHNEIDER IS THE PRESIDENT OF the Cornfield Bank of Cornfield, Nebraska. Most of his depositors are local farmers. Schneider likes to keep a 10% reserve against the amount of deposits in his bank. Right now, he has $500,000 in deposits, as well as gold and national bank notes in his vault worth $50,000. Schneider sleeps well every night because he's got a 10% reserve against all deposits in his bank.

Reserves	*Deposits*
$50,000	$500,000

But it's time for spring planting around Cornfield. A lot of farmers come to town to withdraw money for seed and fertilizer. They withdraw a total of $20,000 from their deposit accounts, which Schneider pays out to them in the form of national bank notes. Now how much does Schneider have in reserves and in deposits?

Reserves	*Deposits*
______	______

How much *should* Elmer have in reserves if he wants to maintain a 10% ratio of reserves to deposits?________________________

Does he have it?________________________

No, he sure doesn't, and it worries him. So he turns to the city bank with which he has an account, the Last National Bank of Omaha (LNB).

The Last National Bank has $5,000,000 in deposits and a reserve of $500,000.

Reserves	*Deposits*
$500,000	$5,000,000

They're okay until they get Schneider's request for the $18,000 in reserves he needs to bring his reserve ratio back up to 10%. When LNB sends $18,000 to Schneider's bank, how do the LNB reserves and deposits change?

Reserves	*Deposits*
______	______

In order for LNB to get back up to the preferred 10% ratio of reserves to deposits, how much in additional reserves does LNB need?

____

To get additional reserves, LNB makes a withdrawal from its account at the Super Colossal Bank of New York City (SCB). In order for SCB to pay out to LNB, it "calls" some of its loans.

Now, one or two loans "called" in New York aren't going to ruin the economy. But remember that Schneider's bank is only one of many that has accounts at the Last National Bank of Omaha, and that many city banks like LNB have accounts at the Super Colossal Bank of New York City. If a large number of farmers draw more money than usual out of many local banks at spring planting time, Super Colossal might wind up calling a large share of its loans. Some business firms that borrowed from SCB might go broke because they aren't able to repay their loans within the 24–hour period. Many securities dealers are going to sell some of the new stocks and bonds they own to get the cash to pay their call loans, and, when all those stocks and bonds are sold, security prices are going to go down, making it harder for business firms to get the money they need to keep going or expand. They may be forced to reduce their business activity and to lay off workers. All these outcomes may culminate in a "panic," like the great Panics of 1837, 1873, 1893, and 1907, in which the supply of credit shrinks as bankers reduce their loans. In fact, the money stock itself shrinks if loans are reduced throughout the country.

The situation regarding the Cornfield Bank of Cornfield, Nebraska illustrates how a money panic could begin at the bottom, with small banks, and spread to the top, affecting large banks.

A money panic could also start at the top.

When prices fell drastically in the stock or bond market, smaller banks could withdraw their deposits from New York City banks, knowing that these banks might not be able to collect on all their loans. Failures of major bank borrowers also could lead to massive withdrawals.

Whether the problem started at the bottom or the top, the response of big New York banks when they lost funds was to call in old loans and to refuse to make new ones. Businesses that couldn't pay back their old loans or borrow new money frequently were forced into bankruptcy. During the Panic of 1873, for example, more than 5,000 business firms closed their doors, throwing their employees out of work.

QUESTION FOR DISCUSSION

Explain how the pyramid relationship was a serious problem that banks faced in 19th century America.

Name______________________

ACTIVITY 2
THE FEDERAL RESERVE SAVES THE BANKING SYSTEM—OR DOES IT?

THE PANIC OF 1907

Money panics had become a great source of uncertainty for the American public. The Panic of 1907 was the last straw. A disastrous collapse of New York banks and of the stock market was prevented only because one powerful banker—J. Pierpont Morgan—assembled representatives of the major New York City banks and trust companies and formed a credit pool to make reserves and loans available. In the same way that the panic showed once again how unstable the American banking system was, Morgan's actions showed that it was possible to stop panics by making credit available. In response, the government formed a national Monetary Commission whose recommendation led to the passage of the Federal Reserve Act of 1913.

THE FEDERAL RESERVE ACT OF 1913

The Federal Reserve Act divided the nation into 12 districts, with a regional Federal Reserve Bank for each district. Most districts had one or more Federal Reserve branch banks as well. A new currency was also provided. Federal Reserve notes were backed by gold but also by commercial paper (loans to businesses). When a bank needed reserves either to compensate for withdrawals or to allow it to make new loans, it could pledge some of its loans to the district Federal Reserve Bank. The Federal Reserve Bank would then pay out Federal Reserve Notes to the borrowing bank, which could in turn use those notes as reserves against its deposits.

Banks paid an interest rate to borrow funds from the Federal Reserve Banks. This interest rate was called the *discount rate*. The discount rate could be decreased when the Federal Reserve Banks (the Fed) felt that more money was needed to encourage the economy to grow, and increased when the Fed feared that inflation might occur because new money was being created too rapidly. Although there was a Federal Reserve Board in Washington that monitored the 12 district banks, the discount rate for each district was set independently by the Federal Reserve Bank of that district.

The Federal Reserve Banks thus became a source of new reserves to the banking system. The system provided not only a protection against bank failure but also a way of increasing the money supply to encourage economic growth. So there was a happy ending to the story and no banks ever failed again, right?

Not exactly. Banks continued to fail, although at a reduced rate. Most of the banks that failed were small banks, and these failures did not spread through the system to cause panic in the New York financial markets. However, after the Stock Market Crash of 1929, there were three disastrous waves of bank failures, in late 1930 and early 1931, in late 1931, and in late 1932. From 1930 through 1933 over 9,000 banks failed in the United States, and the U.S. money supply dropped by one-third.

Why did the Federal Reserve System fail to do the job it had been set up to do, preventing bank failures and supplying adequate money to the economic system? You'll learn more about this when you study the Great Depression.

QUESTIONS FOR DISCUSSION

1. Explain how the Panic of 1907 and the actions of J. Pierpont Morgan set the stage for the passage of the Federal Reserve Act.

2. How did the establishment of the Federal Reserve System make it possible for a bank to get additional reserves without withdrawing them from another bank?

3. Were all banking system problems solved by the establishment of the Federal Reserve System?

Name____________________

ACTIVITY 3
BEFORE AND AFTER THE FED

BEFORE THE FEDERAL RESERVE SYSTEM

John Smith owns a factory that employs 200 workers. He owes the Acme Bank $10,000. He is supposed to pay the loan back next month, but business has been very slow. He is sure that business will pick up over the next few months, however.

Smith goes to the Acme Bank and requests that his loan be extended for another six months. He will continue to pay the interest.

The bankers at Acme Bank believe that Smith will be able to repay his loan. They believe his problems are only temporary. However, Acme Bank is experiencing many cash withdrawals. What will probably happen to Smith's loan extension request?

QUESTIONS FOR DISCUSSION

1. What will probably happen to Smith's business?

2. What will happen to the 200 workers at Smith's factory?

AFTER THE FEDERAL RESERVE ACT IS PASSED

Let's take a look at the very same situation after the Federal Reserve System begins operations in 1914. Smith asks Acme Bank for a loan extension, but Acme Bank doesn't have enough reserves to permit extension of the loan. What can Acme Bank now do?

QUESTIONS FOR DISCUSSION

1. How does the existence of the Federal Reserve System affect Smith?

2. How does it affect the 200 workers in Smith's factory?

SAMPLE TEST ITEMS

LESSON 1

1. The monetary policy of the United States did not switch to the silver standard in the 1890s. The value of U.S. money was still tied primarily to gold. Without more gold, there could not be more money. Money became more scarce, more valuable, and deflation took place.

But by 1900, farmers and other debtors were happier with monetary policy. Circle the answer below that best explains this change of attitude. Then explain your choice, in a few sentences.

A. Farmers and debtors worked 24 hours per day and paid off all their loans by 1900.
B. Farmers and debtors decided not to worry about losing purchasing power because of deflation and just stopped complaining about it.
✓C. Large gold discoveries in Alaska, the Yukon, and South Africa greatly increased the world gold supply and increased the U.S. money supply.
D. The federal government decided to give every debtor $2,000 as a gift to help them pay off their loans.

2. Which of the following statements is the best example of inflation?

✓A. The average of all prices in the economy increases.
B. The price of farm wagons increases.
C. The average of all prices in the economy decreases.
D. The price of farm wagons decreases.

3. It is 1895 and you own a bank. Your bank has issued $500,000 in loans between 1890 and 1895. Most will be paid back gradually over the next 20 years. In the election of 1896, you can vote for William McKinley (R) or William Jennings Bryan (D). Their policies on money are given below. Whom would you choose, and why? McKinley: Continue gold standard, maintaining the deflation currently in place. Bryan: Allow all silver to be turned into coins increasing the money supply and stopping the deflation. The price level will stay stable or inflation will begin.

Possible answer: Students should select McKinley. They will gain more value from the incoming loan payments as the value of money rises during the deflation process.

4. In the 1890s many farmers wanted to use silver to increase the money supply even though this policy would make money less scarce, less valuable, and potentially create inflation. Inflation means farmers would have to pay higher prices for food, clothing, farm machinery, and seeds to plant new crops. Use the *HDG* and the concept of economizing choices to explain the farmers' choice.

Possible answer: Students should argue that some costs would remain the same for farmers—mortgage payments, for example—so not all farm costs would rise (*HDG* #2). Second, farmers expected their incomes to rise more than their costs, so they would be better off (*HDG* #6). To economize means to weigh expected costs and benefits, and to choose an alternative representing the most advantageous mix of costs and benefits.

LESSON 2

1. When the amount of money circulating in an economy increases faster than the quantity of available goods and services,

A. Prices tend to fall.
B. Prices remain the same.
C. Unemployment tends to increase.
✓D. Prices tend to rise.

2. When the quantity of available goods and services in an economy increases faster than the amount of money circulating in the economy,

✓A. Prices tend to fall.
B. Prices remain the same.
C. Unemployment tends to decrease.
D. Prices tend to rise.

3. In 1896, William Jennings Bryan was the presidential candidate of both the Populist and the Democratic parties. He strongly opposed the gold standard. Which of the following groups did *not*, as a whole, support him?

A. Silver miners
B. Farmers
✓C. Manufacturers
D. Westerners

4. Which of the following was an advantageous consequence of the return of the United States to a gold standard?

A. Borrowers found it easier to repay their debts.

✓B American goods became more competitive in world markets.
C. Rising prices increased production and employment.
D. The income of most farmers rose.

5. Using the quantity theory of money, explain why farmers and debtors expected that unlimited coinage of silver would be an economic advantage to them. Again, using the quantity theory, explain why wealthy people, lenders, and eastern manufacturers believed that adoption of a gold standard would be an economic advantage to them.

Possible answer: A simple quantity theory of money states that MV = PQ. Farmers and debtors sought to increase M in order to increase inflation. This inflation would have benefited farmers and debtors. Creditors, such as lenders in the Northeast, favored a return to the gold standard to limit M. Deflation occurred as M fell in relation to PQ. This deflation benefited creditors.

LESSON 3

1. Below are four events. Put them in correct time order to show how a banking panic could spread from small country banks to the New York stock market in the years before the Federal Reserve System was established.

1. Stock market brokers sold stocks to pay their call loans.
2. City banks that lost reserves to country banks withdrew reserves from major New York City banks.
3. Unusually large cash withdrawals caused country banks to withdraw some of their reserves at city banks.
4. Stock prices fell and credit became difficult to obtain.
5. Major New York City banks called loans to stock market brokers.

A. 5, 3, 2, 1, 4
B. 3, 5, 1, 3, 2
✓C. 3, 2, 5, 1, 4
D. 5, 2, 1, 3, 4

2. Multimillionaire banker J. P. Morgan stopped the Panic of 1907 by

A. Personally lending New York banks the cash they needed as reserves against their loans.
B. Appealing to banks not to call their 24-hour loans.
C. Appealing to the Federal Reserve Board to create new reserves.
✓D. Persuading New York banks and trust companies to form a pool to make reserves and loans available.

3. After the Federal Reserve System was established, banks that were short of reserves could borrow Federal Reserve notes from their district banks. If the district Federal Reserve Bank thought that the money stock was increasing too rapidly, thus increasing the threat of inflation, they could

✓A. Raise the discount rate, which would discourage banks from lending.
B. Raise the discount rate, which would encourage banks to increase their loans.
C. Lower the discount rate, which would encourage banks to increase their loans.
D. Lower the discount rate, which would discourage banks from lending.

4. Before the establishment of the Federal Reserve System, the amount of reserves in the banking system was limited by the amount of gold held by U.S. banks. How did this cause money panics and how did the establishment of the Federal Reserve System make money panics less likely?

Possible answer: Before the establishment of the Federal Reserve System, one bank could increase its reserves only by withdrawing cash from another bank, thereby increasing the likelihood that the second bank wouldn't have enough reserves. After the Federal Reserve Act was passed, a Fed bank could actually increase the total amount of reserves available by issuing new Federal Reserve notes to banks. Thus, one bank could increase its reserves without depleting the reserves of some other bank.

5. How did the Federal Reserve System help to prevent business failures and to encourage economic growth?

Possible answer: When banks gained access to extra reserves, they could make lending decisions based upon the creditworthiness of borrowers, not upon the conditions of their own balance sheets. They were not forced to cut off credit to basically sound businesses, and they could make more loans to new or expanding businesses.

THE GREAT DEPRESSION AND THE NEW DEAL

UNIT 7 FOCUSES ON issues related to the causes of the Great Depression and some New Deal policies intended to correct problems in the U.S. economy. For years, the Great Depression has been understood as the product of a great failure in the market economy. In a sense this is true. How could the collapse have occurred? What were the consequences?

Lesson 1 poses an economic mystery. Why did the U.S. economy, which experienced unprecedented prosperity in the 1920s, experience unprecedented failure in the 1930s?

Lesson 2 shows how a decline in total demand in the economy resulted in lower sales, employment, and wages—leading to a reduced ability among consumers to purchase goods and services. This change forced businesses to cut production, lower prices, and reduce their payrolls by employing fewer people.

Lesson 3 uses case studies of the production of greeting cards and milk, along with supply and demand analysis, to explain why individuals lost their jobs and businesses in the 1930s due to the effects of the depression on individual markets.

Lessons 4 and 5 invite students to analyze New Deal programs—did they foster economic recovery or hinder it?

Lesson 6 examines labor union membership during the Great Depression and poses a mystery regarding why membership increased in 1935.

WHATDUNIT? THE GREAT DEPRESSION MYSTERY

INTRODUCTION

History During the 1920s, millions of people enjoyed prosperity. The affluence of the Roaring Twenties, however, suddenly began to evaporate in 1929. By 1932, 12 million people were out of work.

Mystery The American economy went from unprecedented prosperity in the 1920s to unprecedented misery in the 1930s. Why?

Economy History The American market economy is guided by rules, but some of the rules that were effective before the Great Depression proved to be of little help in the 1930s, and some rules that might have been helpful were not followed. What began as a mild recession following a period of economic expansion soon became a depression. A major reason was that the amount of money in circulation fell drastically.

CONCEPTS

Recession
Depression
Demand
Income
Multiplier
Money
Fractional Reserve Banking
Federal Reserve System

OBJECTIVES

♦ Analyze the relationship between decreases in consumer spending and unemployment.

♦ Describe the spiral effect that occurs when workers who lose jobs spend less, thereby reducing total spending and causing other workers to lose jobs.

♦ How did the Federal Reserve Banks' failure to act as lenders of last resort and President Hoover's attempt to balance the budget effect the amount of money in circulation?

LESSON DESCRIPTION

Students read a brief passage posing the basic question about the Great Depression: How did it happen? A brief simulation activity shows how unemployment in one part of the economy can lead to unemployment in other parts of the economy. With the aid of two visuals, the teacher discusses the reduction in the stock of money caused by bank failures from 1930 to 1933.

TIME REQUIRED

♦ One Class Period

MATERIALS

One occupation card for each student, copied from Activity 1.

One copy for each student of Activity 2.

One transparency each of Visuals 1, 2, and 3.

PROCEDURE

1. Explain to the class that this lesson will focus on the causes of the Great Depression. Distribute Activity 1. Invite the class to speculate on explanations of the mystery.

2. Explain that most economists agree that the Great Depression began with a recession caused by a fall in spending for the goods and services that workers produced.

3. Distribute Occupation Cards made from Activity 2 to students. Tell students not to reveal their occupations to others.

4. Tell students that U.S. prosperity in the 1920s had been based to a large extent the sale of houses and automobiles. Consumers could now buy both houses and cars on the installment plan, and they were eager to do so. These purchases created jobs for workers building homes and cars, and also making the furniture that went into the new homes, and the steel and other materials that were used to produce cars. Jobs were also created as business firms built new plants and bought new equipment to produce what consumers wanted. The prosperity of workers in these industries allowed them to spend a lot of money, thus providing income to other workers—income which they in turn spent to buy other goods and services. Economists call

the spread of such new spending *a multiplier effect*—one person's spending becomes income to another person, who in turn can spend more and add to the income of others.

5. But the multiplier effect can work in reverse. By the late 1920s, U.S. business activity began to slow as the economy entered what began as a mild recession. Sales of automobiles and homes began to fall. Business firms slowed their expansion of new plants, causing workers who made a living building plants or producing machinery to lose their jobs.

6. Tell students who received work occupation cards in the machinery-producing industry to stand up. They are now unemployed because business firms are ordering less machinery.

7. Tell students in car sales to stand up. They are now unemployed because car sales are down. The car dealers who lay them off also cancel their orders to automobile factories. Owners of these factories fire autoworkers. Tell autoworkers to stand up; they are unemployed, too. Auto factories also cancel their orders for steel and other raw materials used to make cars. Tell steel workers to stand up—joining the ranks of the unemployed.

8. Since sales of new houses have also gone down, tell housing construction workers to stand up. Since fewer new houses are being sold, furniture sales are also down. Tell furniture sellers to stand up. Furniture stores reduce orders to furniture factories. Tell furniture workers to stand up.

9. Ask students who are still seated to look around at all the people who are unemployed. The jobs of students who are still seated are now in danger also. People who are unemployed don't buy new clothes. Tell clothing salespeople to stand up. People who are unemployed don't eat out much. Tell restaurant workers to stand up. Unemployed people eat, but they cut back on food purchases, particularly the purchases of more expensive kinds of food that mean higher profits for grocery stores. Grocery store owners reduce the number of their employees. Tell grocery workers to stand up.

10. Tell students that if people start buying again, unemployment will fall. For example, automobiles wear out. If people decide to buy new automobiles, car dealers will place new orders. Auto workers and producers of materials for the auto industry will be reemployed. Tell autoworkers and steelworkers to sit down. Car dealers will hire new salespeople. Tell car salespeople to sit down. Furniture wears out, too, and eventually some people decide to buy some new pieces. Tell furniture makers and furniture salespeople to sit down.

11. As more and more people become reemployed, some feel they can afford new homes. Tell housing construction workers to sit down. People begin to buy higher priced food in grocery stores, to eat in restaurants, and to buy new clothes. Tell grocery workers, restaurant workers, and clothing salespeople to sit down. As purchases of various new products rise, business firms expand production and buy new machinery and equipment. Tell machinery producers to sit down.

12. Explain to the class that a key question is: why did a mild recession starting in July 1929 due to a downturn in the rate of growth in the automobile and housing industries turn into a deep depression?

13. Tell students that, from 1930 to 1933, banks began to close in record numbers. Display Visual 1. Ask students why so many banks might have failed. (Unemployed people and failing businesses withdrew cash, lowering the reserves of banks. Also, people and business firms were unable to pay back money they had borrowed from banks, and those loans became worthless to the banks. When the reserves of a bank fell to a level that seemed too low, worried depositors would rush to the bank to withdraw their deposits; the bank then would fail because it could not pay all depositors.)

14. Ask students how the Federal Reserve Banks were supposed to help banks in trouble. Explain that by the terms of the Federal Reserve Act of 1913, the Banks were supposed to lend money to banks in trouble; they were to be "lenders of last resort." Tell students that, in

general, the Federal Reserve Banks did not perform this function during the Great Depression. As a result, a large number of banks failed all over the country, and the amount of money circulating in the economy decreased.

15. Display Visual 2. From 1929 to 1933, the amount of money circulating in the United States decreased by about one quarter. Display Visual 3. Ask students what happens when the amount of money circulating in an economy decreases. (There is less spending, sales of products fall, and the people who make those products lose jobs.)

16. Continue to refer to Visual 3. Point out that another reason for the severity of the Great Depression had to do with misconceived government policy based on the belief in the pre–1929 period that the federal budget should be balanced annually. Accordingly, in 1932 the Hoover administration put through the largest income tax in history. This further aggravated consumers' ability to spend because money given in taxes to the government is money unavailable for consumption.

CLOSURE

Review the explanations of the causes of the Great Depression. The explanations stress a set of interrelated events—that more goods and services were produced than people were able or willing to buy, that falling demand in some industries caused unemployment, and the decreases in spending by unemployed workers caused further unemployment. However, it was decreases in the money supply stemming from the Federal Reserve raising its interest rates and the Hoover administration's tax hikes that probably caused a recession following a long period of growth to turn into a deep depression.

Name________________________

ACTIVITY 1
WHATDUNIT: THE GREAT DEPRESSION MYSTERY

ONE OF THE GREAT MYSTERIES OF THE 20th century is how the U.S. economy could have gone from a state of unprecedented prosperity in the 1920s to one of unprecedented failure in the 1930s. In the 1920s jobs were plentiful, the economy was growing, and the standard of living was rising. By the end of the 1920s, at least twice as many families owned their own homes as had at the beginning, and most of those houses were equipped with electric lights and flush toilets, once regarded as luxuries. Sixty percent of all households had automobiles, up from 26 percent in 1920. More teenagers were attending high school; fewer were working full time. Leading political and economic figures of the day said that the United States appeared to have reached "a permanent plateau of peace and prosperity."

But by 1933 at least one-fourth of the U.S. labor force was unemployed and about the same percentage was working shorter hours, which reduced their incomes. Families were losing their homes and many were going hungry. Adolescents who should have been in high school were riding around the country in freight cars, looking for work. Although 1933 was the low point of what came to be called the Great Depression, the unemployment rate never dropped below 14 percent until 1941. A decade of hope had been succeeded by a decade of hopelessness.

What happened? The United States possessed the same productive resources in the 1930s as it had in the 1920s. The great factories and the productive machinery that had raised living standards in the 1920s were still present in the 1930s. Workers still had the same skills and were willing to work just as hard as before, and farmers were producing more food than ever. How could life have become so miserable for so many Americans in such a short period of time?

A murder mystery is often called a "whodunit" because we want to know who committed the crime. The mystery of the Great Depression is a "whatdunit"—what caused the Great Depression and what made it last so long? A lot of people who are neither historians nor economists care about the answer because they fear that such a depression could happen again in our country and they want to know whether such a recurrence can be prevented.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

ACTIVITY 2
OCCUPATION CARDS

Directions: Make enough cards so that each student gets one, repeating occupations as necessary.

YOU WORK IN A FACTORY THAT MAKES MACHINERY	YOU ARE AN AUTOWORKER
YOU SELL CARS	YOU ARE A STEELWORKER
YOU ARE A CONSTRUCTION WORKER	YOU SELL FURNITURE
YOU WORK IN A FURNITURE FACTORY	YOU SELL CLOTHING
YOU WORK IN A RESTAURANT	YOU WORK IN A GROCERY STORE

VISUAL 1

NUMBER OF U.S. BANKS CLOSING TEMPORARILY OR PERMANENTLY, 1920–1933

YEAR	NUMBER OF BANK CLOSINGS
1920	168
1921	505
1922	367
1923	646
1924	775
1925	618
1926	976
1927	669
1928	499
1929	659
1930	1352
1931	2294
1932	1456
1933	4004

Source: U.S. Bureau of the Census, *Historical Statistics of the United States,* U.S. Government Printing Office, Washington, D.C., 1960.

VISUAL 2

MONEY IN CIRCULATION

(Currency + bank deposits, in billions of dollars)

YEAR	MONEY IN CIRCULATION
1929	$26.2
1930	$25.1
1931	$23.5
1932	$20.2
1933	$19.2

Source: U.S. Bureau of the Census, *Historical Statistics of the United States*, U.S. Government Printing Office, Washington, D.C., 1960.

VISUAL 3
RECESSION TO DEPRESSION

Why did a mild recession, starting in July 1929 due to a downturn in the rate of growth in the automobile and housing industries, turn into the Great Depression?

1. **Poor monetary policy**
   - **The Federal Reserve System kept interest rates high which restricted the amount of money in circulation.**

2. **Poor fiscal policy**
   - **The accepted rule of fiscal policy in the pre–1929 period was that the budget should be balanced annually.**
   - **The Hoover administration put through the largest income tax increase in history to balance the budget.**

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UNIT SEVEN: LESSON TWO

WHERE DID ALL THE INCOME GO?

INTRODUCTION

History Life changed for many people during the Great Depression. As unemployment grew, marriages were postponed and college educations discontinued. The prosperity of the 1920s gave way to the unemployment, hunger, and homelessness of the 1920s.

Mystery In hard economic times, people try to protect themselves from additional hardships by saving through cutting back on consumption. Why would such prudent measures for individuals make people worse off overall during the Great Depression?

Economic History Increased saving by some individuals during the Depression reduced the income of other individuals. Voluntary trade is reduced by reduction in purchasing power. The consequences of the first decisions were visited on other individuals in an indirect but important manner.

CONCEPTS

Income
Saving
Interdependence
Aggregate Demand
Aggregate Supply

OBJECTIVES

- Identify ways in which income facilitates exchange.
- Explain how increased saving can reduce the income of other individuals.
- Analyze the relationship between reduced consumption and the level of activity in an economy.

LESSON DESCRIPTION

Students discuss an economic mystery and study the definition of money. Class discussion follows a role play activity, and students identify the consequences of additional saving on income when no other changes take place in the economy.

TIME REQUIRED

- One class period

MATERIALS

One transparency each of Visuals 1, 2, 3, 4, and 5.

A $1 bill, 5 doughnuts, 5 apples, 5 oranges, 5 candy bars, 5 postcards.

PROCEDURE

1. Explain that the purpose of this lesson is to examine savings as a force at work in the U.S. economy during the Great Depression.

2. Display the economic mystery in Visual 1 and invite students to speculate about why prudent individual behavior could make others worse off. Explain that part of the answer has to do with increased saving, leading to a decrease in aggregate demand. Display Visual 2 and discuss the definitions of *aggregate demand* and *aggregate supply*. Explain that in 1929 there was an unanticipated shift in aggregate demand while aggregate supply remained the same due to peoples' desires to increase savings by decreasing consumption.

3. Display Visual 3 to illustrate the leftward shift of the aggregate demand curve. This shift occurred because of reduced consumption by consumers, reduced investment by business, and decreasing international demand for U.S. products.

4. Students may still wonder why people had less income when there was a change in aggregate demand.

5. Pick five students to play the role of participants in a small economy. Arrange five tables in front of the class with a different product on each table (see Materials for suggestions). Have each student play the role of the seller of the product at his or her table.

6. The teacher should buy one product with a $1 bill. The student receiving the $1 bill should use that income to buy a product from another student. Continue the process until all five students have received income by selling one product.

7. Ask the class: How much income was

spent in the economy and how much income was received in total? ($5 of income and $5 of expenditures.)

8. Start the process again with the student who has the dollar, but stop it before one seller receives income because a prospective customer chooses to save now rather than buy. For example, everyone but the apple seller receives income.

9. Start the process again and stop it after one purchase due to the fact that many prospective consumers now chose to save. Ask the class: How much income was spent in the economy and how much income was received in total? ($1 of income and $1 of expenditures.)

10. Discuss the results of this demonstration. *Ask:*

A. Why has economic activity declined from $5 to $1? (As money circulated less because of a decrease in total spending, total income fell and total spending declined again as a result.)

B. Why don't people use money if they have it? (They may save for fear of not receiving money in the future.)

11. Explain that most of us prepare for hard times by spending less and saving more. This decision, if made by *many* people in the economy, can contribute to loss of income and decreased aggregate spending in the economy. The effect will be a change in aggregate demand, such as the one that helped cause and sustain the Great Depression.

12. As you read about the Great Depression in your textbook, look at the policies that were put in place to correct the problem; evaluate those policies by reference to the following criteria: Will the policy increase consumers' income so they can spend more money and contribute to other people's income?

CLOSURE

Review key points of this lesson by displaying the circular flow diagram in Visual 4. Demonstrate how reductions in spending by resource owners (households) would contribute to less income by business firms which would, in turn, decrease wages, rent, interest, and profits. Follow this process around the circular flow to show how it continues to decrease incomes and expenditures throughout the economy.

VISUAL 1

ECONOMIC MYSTERY WHERE DID ALL THE INCOME GO?

In hard economic times, people try to protect themselves from additional hardships by saving and cutting back on consumption. Why would such prudent measures for individuals make people worse off overall during the Great Depression?

From *United States History: Eyes on the Economy,* ©National Council on Economic Education, New York, N.Y.

VISUAL 2

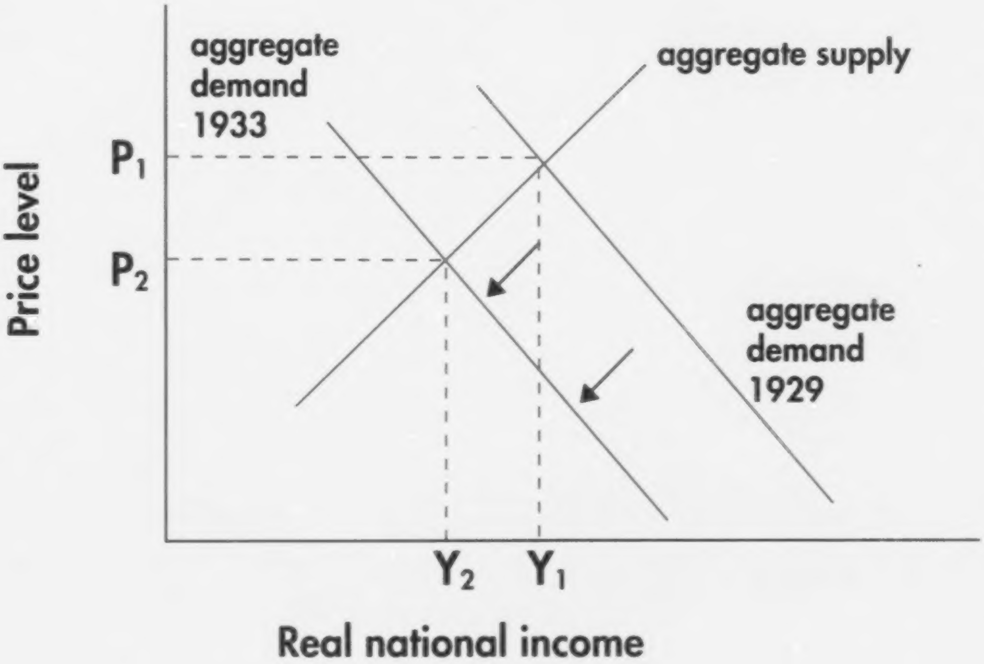
AGGREGATE DEMAND AND AGGREGATE SUPPLY

AGGREGATE DEMAND: A relationship expressing the total amount of spending on goods and services in the economy at different price levels.

AGGREGATE SUPPLY: A relationship expressing the total amount of goods and services produced in the economy at different price levels.

VISUAL 3

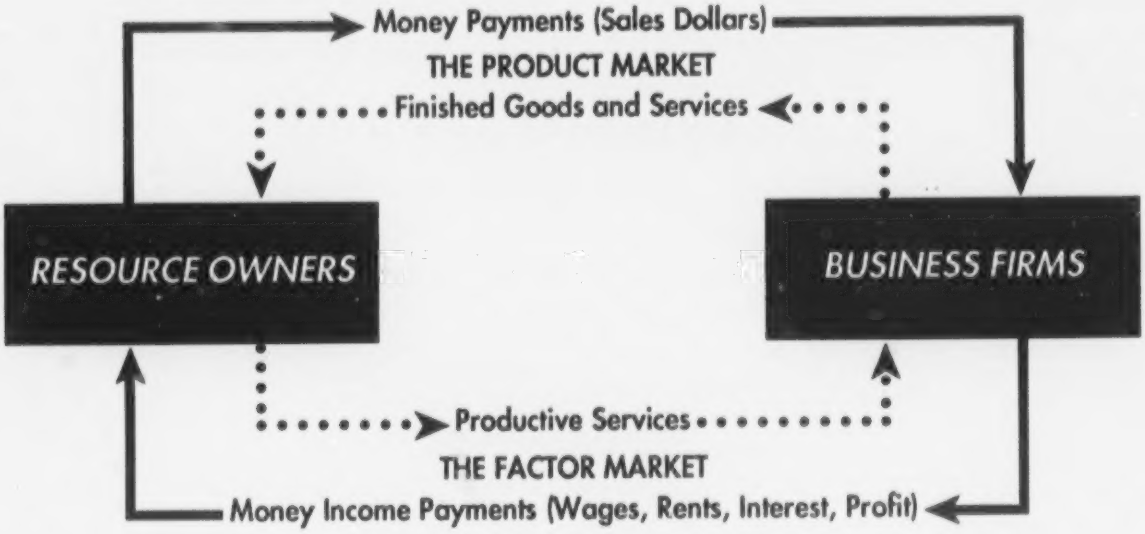
CHANGE IN AGGREGATE DEMAND DURING THE GREAT DEPRESSION


aggregate demand 1933
aggregate supply
P1
P2
Price level
aggregate demand 1929
Y2
Y1
Real national income

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

VISUAL 4

CIRCULAR FLOW DIAGRAM


Money Payments (Sales Dollars)
THE PRODUCT MARKET
Finished Goods and Services
RESOURCE OWNERS
BUSINESS FIRMS
Productive Services
THE FACTOR MARKET
Money Income Payments (Wages, Rents, Interest, Profit)

WHEN GREETING CARDS WERE TOO EXPENSIVE TO BUY AND MILK WAS TOO COSTLY TO SELL

INTRODUCTION

History Everybody knows that during the Depression times were tough. Businesses failed and families suffered. Some consequences were predictable. People cut back on purchases of meat, they walked to work rather than ride a streetcar, and so on. To get a sense of how serious things were, however, it helps to look at some of the more extreme situations that developed. In the Midwest, for example, many dairy farmers poured their milk into ditches rather than sell it. And the willingness to buy goods as inexpensive as greeting cards dwindled to almost nothing.

Mystery You would think that hungry consumers and poor dairy farmers had a common problem, one that could be relieved on both sides by the sale of milk. And you would think that, as people cut back on costly luxuries, they might compensate by spending small sums on little niceties like greeting cards. Why did that not happen?

Economic History People economize. In making choices, they seek the best combination of costs and benefits. In unusual circumstances, people's best choices of action may look odd. In a sustained period of falling demand in an industry, for example, prices may fall to such a low level that producers earn less money from selling their products than it costs to produce those products in the first place. When this happens, a decision not to sell may be the best course of action. As more people cut back on their economic activity for reasons such as this, failures in one industry in the economy spread to other sectors. Consumers decide against small purchases that in other times they would have made.

CONCEPTS

Supply
Demand
Economize

OBJECTIVES

♦ Use reasoning principles from the *Handy Dandy Guide (HDG)* to explain the choices made by individuals described in the case studies.

♦ Use supply and demand analysis in selected product markets to explain the impact of reduced demand and/or increased supply on prices, output, and employment in these markets due to the Great Depression.

♦ Explain the destruction of products by farmers as an example of the principle that people economize.

LESSON DESCRIPTION

Students will read two case studies that describe changes in the economy before and during the Great Depression. Then they will use supply and demand analysis to explain why individuals in selected markets lost their jobs and businesses.

TIME REQUIRED

♦ One class period

MATERIALS

One greeting card.
One small carton of milk.
One copy for each student of Activities 1 and 2.
One transparency each of Visuals 1 and 2.

PROCEDURE

1. Hold up a greeting card and a small carton of milk. Ask students to identify situations when these items would be too expensive for them to buy. (The students might suggest situations in which they have no money; they have a small amount of money but must use it for another purpose; they have the money but are saving it for a different purpose.)

2. Ask students if they plan to live with their parent(s) when they are 20 years old, 30 years old, 40 years old. (Most students will expect to live away from their parent(s) in independent and successful lives. They will have positive expectations. If they plan to live at home, the plan may involve an economizing choice to reduce

costs, increase the goods and services they can purchase with their income, and build up their savings.)

3. Explain that a reduction in income reduces people's demand for goods and services in the industries from which they buy. Today we will investigate two situations involving producers who chose to change their lives as a result. One stopped making greeting cards and another began to destroy milk at a time when many people were going hungry.

4. Display Visual 1 to pose the economic mysteries of this lesson directly. Ask the students to speculate on solutions to these mysteries. Remind them of the economic principle that people choose.

5. Divide the class into two groups. Distribute Activity 1 to one group and Activity 2 to the other group. Ask them to identify the choices the two people make and to decide whether the choices exemplify economizing—that is, weighing the combination of anticipated costs and benefits and choosing alternatives which seem most advantageous.

6. Have students summarize what happened to Maria Duclos and Arnold Heifer between 1918 and 1932.

(*Maria Duclos:* 1918, lost husband in war, took an office job as secretary; 1924, promoted to office manager, received raise, purchased gifts and appliances on credit; 1929, bought home with mortgage and did not invest in the stock market; 1932, lost job and home when the business closed, moved in with sister-in-law, worried about having enough to eat.)

(*Arnold Heifer:* 1918, bought new equipment with income earned from sale of milk at high prices during World War I; 1924, Arnold's son, Fred, married, started a dairy farm, took out loan on new equipment; milk prices fell; 1929, milk prices continued to fall, milk production increased with better equipment. By 1932, prices continued to fall, and Fred chooses to give up the farm. He destroys his milk production, both as a protest and as a way to avoid selling costs.

7. Ask students to identify which decisions made by Maria and Arnold and Fred were examples of economizing decisions. (There are many examples in the readings, but three important ones were:

A. The decisions to buy the house and the farm. Maria and Arnold and Fred expected to have enough income to cover the prices of goods and services they purchased. They thought the house and the farm would provide, respectively, happy homes; they expected that this was the best combination of benefits and costs.

B. The decision to move in and live with relatives. Maria and Fred realized that the costs of having their own home were too great, given their low incomes. The expected costs of living alone were greater than the expected benefits compared with those associated with relatives.

C. The decision to destroy the milk. The costs of sending milk to market were greater than the price the seller would receive. It was more satisfying to dump the milk as a protest.)

8. Did Maria and Fred and Arnold cause their financial problems? (Probably not; the drop in the demand for their products led to a series of events that unexpectedly reduced their income.)

9. Explain to the class that changes in both demand and supply influenced the lives of Maria and Arnold and Fred. Use Visuals 2, 3, and 4 to show a graphic illustration of changes in demand and supply in 1924, 1929, and 1932.

A. Display Visual 2. *Ask:* What are the effects in both situations on prices and quantities? (The price and quantity of milk increased while the price decreased.

B. Display Visual 3. *Ask:* What are the effects in both situations on prices and quantities? (The price of greeting cards stayed about the same but the supply increased.)

C. Display Visual 4. What are the effects in both situations on price and quantities? (Reductions in income caused sharp decline in the demand for milk and greeting cards. This drop in demand causes prices and the amount sold of both items to decrease.

10. Ask students to think of a positive way to solve this problem. *Ask:* should farm and greeting card production be cut or should demand be increased? (Display Visual 5. Explain that if there is an increase in demand as a result of rising production and incomes, then jobs and wages will rise. If supply is reduced, prices will rise but production will fall. Increasing demand would be the best solution.)

CLOSURE

Reiterate that the purpose of this lesson is to examine economizing behavior in the Great Depression by looking at decisions made by farmers and greeting card producers as examples of conditions found in other industries during the Great Depression. Ask students to interview their parents to determine what their family would do if the family income dropped by $5,000 next year. What changes would they have to make in their usual behavior as consumers? For which items and services would they decrease their personal demands? Illustrated these changes using supply and demand graphs.

VISUAL 1

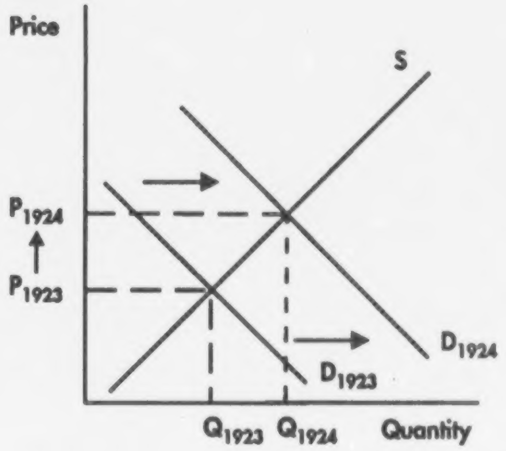
ECONOMIC MYSTERY
THE MILK AND GREETING CARDS MYSTERIES

In the Depression of the 1930s, people were hungry and needed income to buy the things they wanted. Why would farmers destroy their milk rather than sell this product to people who wanted food?

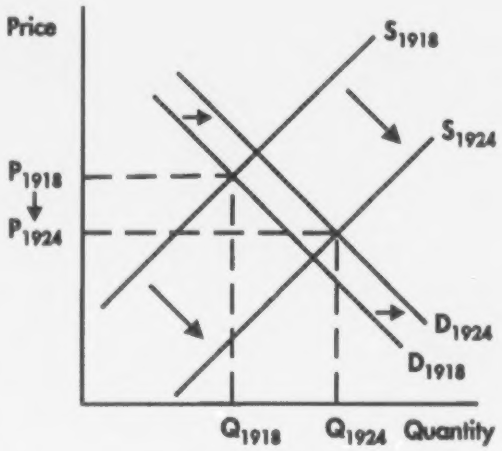
Sending greeting cards is an inexpensive way to cheer people. During the Depression of the 1930s, people needed a lot of cheering up. Why would sales of greeting cards decline during this time?

VISUAL 2

GREETING CARDS AND MILK 1924



GREETING CARD MARKET

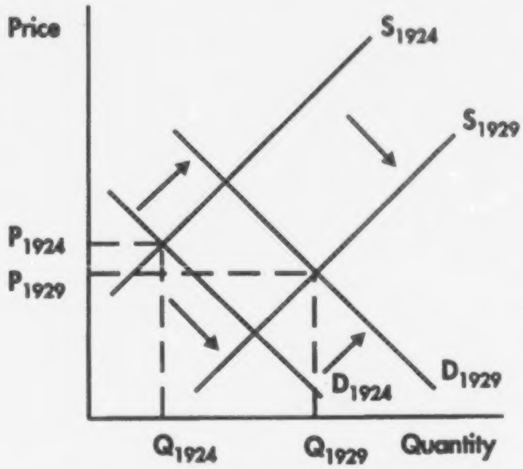


MILK MARKET

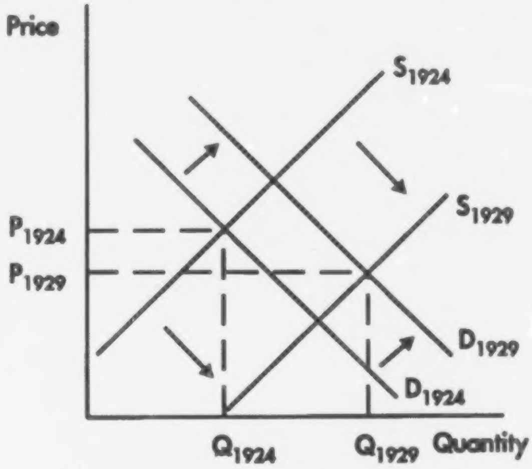
Economic growth yields higher incomes which result in increases in the demand for milk and greeting cards. Also, the supply of milk increased dramatically as new, less costly methods of production were brought into use. What are the effects of both situations on prices and quantities on each?

VISUAL 3

GREETING CARDS AND MILK 1929



GREETING CARD MARKET



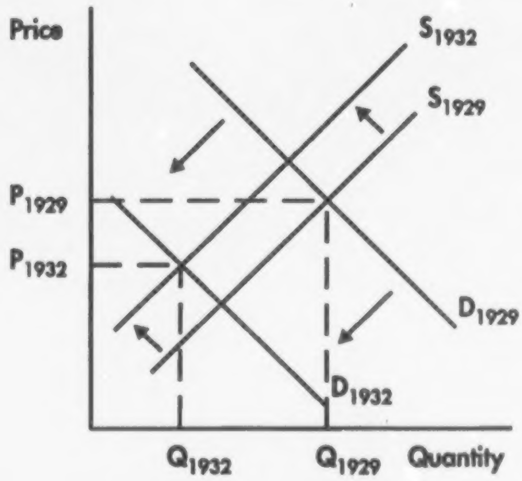
MILK MARKET

Economic growth from 1924 to 1929 lead to higher incomes, which increases demand. The supply of greeting cards increases. Milk supply increases faster than demand. What are the effects on prices and quantities?

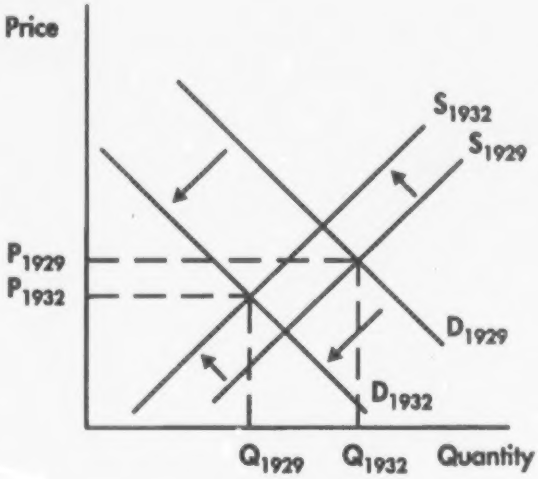
VISUAL 4

CHANGES IN SUPPLY AND DEMAND OF GREETING CARDS AND MILK

1932



GREETING CARD MARKET



MILK MARKET

The economic decline from 1929 to 1932 causes a loss of income and demand for all products is reduced. Demand for milk and greeting cards declines sharply. The supply of the products also declines but not as rapidly as demand. What are the effects on prices and quantities of these two products?

Name_______________________

ACTIVITY 1

EXCERPTS FROM THE DIARY OF MARIA DUCLOS, SECRETARY, IN ST. LOUIS, MISSOURI

December 1918: How happy I would be, with all of our boys starting to come home, if only my Michael could come back, too. It is hard for me, because I have to be glad for my friends as they get ready to welcome their husbands and sons and brothers, but I miss Michael so much. Every day our children ask about him. They know he is gone, but they are just kids. They don't understand war, or death. What they understand is Mama going to an office every day, and Nana Duclos staying with them. Oh, they love her—and she is a good mother-in-law, and misses Michael as I do! But I would like to be with them. I only hope that they will understand some day, and that my salary will be enough to keep us warm and healthy.

December 1924: What a fine holiday we will have this year! I learned from my boss, Mr. Kramer, that I will begin 1925 as office manager. The greeting card business is booming, and Kramer Stationery already is building a larger factory and expanding to sell in Indiana and Michigan. We will add two new women to the office, and my first job is to choose which kind of new typewriters to get—oh, not just for new people, but all of us! Of course, a nice raise goes along with the promotion, so this will be a better Christmas than ever before. Enough money to buy that chemistry set for Billy—the fancy one with all the bottles and tubes. And plenty of money to get Anna the encyclopedia that she wants. . . . I don't see how she could do any better in school than she is already, but she has her heart set on it. Of course, even with the raise I don't really have the cash to buy the encyclopedia, but Pete Willis sells them, and his company has a wonderful installment plan. I can pay them off a little each month. I think I'll treat myself, too, and buy one of the best new refrigerators. It will be sad to see the old icebox go, because it was one of the first things that Michael and I bought when we married, but I have to keep up with the times. With the refrigerator it will be easier to keep things fresh, and I can pay all the installments in just a few years. Times are good!

December 1929: Anna came home today a little worried about all of the newspaper stories. Some of her friends are talking about quitting school to get jobs . . . such a panic! Sure, a few folks have lost jobs, and I can't say that I was too happy to see Mr. Kramer lay off some of our staff . . . but I have worked for him for 12 years now, and I told Anna she doesn't need to fear. I'm sure people will still need greeting cards, after all. Of course, I do worry a little about making the payments on the house, but it is so much nicer than the apartment, and when Nana Duclos died there was no point staying in the old neighborhood. We will be fine, especially since we are so close. Why, Billy even said he could give me some of the money he earns with his paper route, if I ever needed it. Thank goodness I never invested in the stock market. We will be fine.

December 1932: Never did I think I would see this day. Even with the things we sold and the things we gave to neighbors, we have too much to move. When we were taking some of our clothes over to my sister-in-law's last night, I cried . . . just for a few minutes, when no one was looking. She is wonderful and keeps saying that Nana Duclos would want all of her family to be together during hard times, but I see how little room she has, and I know that we will be in the way. But what else can I do? What else can we do? Anna keeps saying that she is old enough to live on her own. Sixteen! I tell her she must stay in school no matter what. And work hard . . . hard! All of my work . . . what happened? It went so fast. Who would have known that Mr. Kramer would make bad investments, or that he owed so much for the expansion in 1924? And who could have guessed that people would stop buying cards? Still we have birthdays and holidays, but no one gives cards, I guess. It all seems so crazy. Why, today in the newspapers I saw photos of farmers in California, just bulldozing big piles of oranges into the ocean! And I've heard that they're dumping milk up in Wisconsin and Minnesota. Can it be true, or maybe a lie? We have enough to eat, for now . . . but if my sister-in-law loses her job? How can a rich country like this have so much, and yet we cannot find work to pay our bills? I wish I had the answers . . . I hope that someone does.

QUESTIONS FOR DISCUSSION

1. Summarize what happened to Maria Duclos in 1918, 1924, 1929, and 1932.

2. A principle of economic reasoning is that people economize—they choose the alternative providing them with the best combination of anticipated benefits and anticipated costs. Give an example of economizing behavior from the Maria Duclos case.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name________________

ACTIVITY 2

EXCERPTS FROM THE DIARY OF ARNOLD HEIFER, DAIRY FARMER IN WISCONSIN

December 1918: Folks around here are mighty happy about the war in Europe coming to an end last month. Marge and I are really looking forward to our boy Fred coming back from France. We're proud of him, and I can sure use him back here on the farm. Even with some of the new equipment I ordered, it is hard to keep up with Fred away. Seems like folks in Milwaukee can't get enough of our milk! Prices have been pretty high during the war, and we should have enough money to help Fred to go part-time to college, since he's got his mind set on learning all that new technical stuff about farming.

December 1924: Well, Fred got married this past weekend, and it was quite an event. Folks came from all up and down the county, driving their Model T Fords. I don't know how we ever got along without cars—guess we just didn't go so far to have a party. Fred and Mabel are pretty excited about starting up their own dairy farm. I helped them out some with the down payment on the land—didn't tell Fred that with the lower prices we've been getting for our milk, that down payment actually came close to cleaning out our savings. But he's a hard worker, and so is Mabel. He's got so many fancy ideas, too, from college. He reckons he can outproduce me, right off the bat! And maybe he's right, too, though I hope he spent enough time on arithmetic at college to figure out how he'll pay off all the loans he took to buy his new equipment. Folks in the cities seem to be doing really well these days, and I guess I should be cheering up. But I just don't like the way the prices have dropped. I work harder, and we turn out more milk, and then the prices *fall* again.

December 1929: I guess I almost feel like saying "I told you so." All this business about folks losing money in the stock market since October . . . we've been losing money here on the farm since the beginning of the 1920s. It's just craziness! All of the dairy farmers around here have been working hard, harder than ever. We turn out more milk than we did ten years ago, and yet we're making a lot less money than we did right after the war. Marge and I just hope we can hold on. And of course, we worry an awful lot about Fred and Mabel, and little Arnie! They've missed a couple of payments on their land, and Fred already had to send back some of his new equipment. He was worrying with me about foreclosure the other day, and I tried to make him feel better, but he knows that we don't have any money to help out. It doesn't make him feel better to know that Ollie Peterson lost his farm to the bank last month. And Ollie is a vet, too, just like Fred. It can't get any worse around here, at least—it just couldn't. Fred and Mabel will be okay. I've never seen harder working young people—their farm outproduces mine, every month! They'll be okay.

December 1932: All of my life I've tried not to cry in public, and except for when we heard about Jimmy Andrews getting killed at Belleau Woods during the war, I don't think I ever cried—until today. Fred and I went with the other farmers down to the protest, with the photographers from the big papers in Milwaukee and Chicago. We drove down a wagonload of milk barrels—when we got there, there must have been a dozen other wagons, loaded up just like us. All my life I've worked hard to feed other folks, and I've been proud of the good milk we send off to town. Waste not, want not—I was raised to believe that. But there we stood, with the others, just tipping over the barrels and watching all that milk run into the ditch. And I didn't even know I was crying until I looked at Fred and saw the tears running down his face. He didn't cry when he and Mabel had to move back with us, when the bank foreclosed on their farm. But watching all that milk wash down the ditch—it just hurt. They say there was no other way to make our point. We can't work for nothing! And the prices have gone down so far that it isn't worth it to keep the cows. It saves us money to throw the milk away rather than sell it. The shipping costs alone are more than the price we receive. It isn't worth it to work! What makes me crazy is that they tell us it's our fault. We did too much, we were too good at our jobs! Less milk, more money, they say. Oh, I can see the logic. But when you've spent your life at hard work, when you just live to see kids like little Arnie grinning over a big glass of milk. . . . I don't have a lot of hope about Mr. Roosevelt solving all of this, but I'll be waiting for March to come, and keeping my fingers crossed.

QUESTIONS FOR DISCUSSION

1. Summarize what happened to Arnold Heifer in 1918, 1924, 1929, and 1932.

2. A principle of economic reasoning is that people economize—they choose the alternative providing them with the best combination of anticipated benefits and anticipated costs. Give an example of economizing behavior from the Arnold Heifer case.

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THE NEW DEAL

INTRODUCTION

History The goal of the New Deal was to restore confidence in the American economy. It included a set of programs such as the Agricultural Adjustment Act of 1933, the Civilian Conservation Corps Act of 1933, the Federal Emergency Relief Act of 1933, the National Industrial Recovery Act of 1933, the Works Progress Administration Act of 1933, and the Social Security Act of 1935.

Mystery Much of President Franklin D. Roosevelt's reputation was built on pulling the U.S. economy out of the Great Depression. However, some of these policies helped economic recovery while others hurt it. What was his overall effect on the economy?

Economic History The choices made by the federal government in regarding taxing and spending led to changes in the size of aggregate demand, the amount of production, and the number of people employed. Increased government spending on some New Deal programs added to total demand, encouraging an increase in production and a decrease in unemployment. However, other New Deal policies sought to raise prices in order to raise producer income. These programs reduced the quantity of products sold and slowed recovery. The overall effect was negligible.

CONCEPTS

Aggregate Demand
Depression
Government Spending
Taxation
Inflation

OBJECTIVES

♦ Recognize that an increase in government spending at a time of less than full employment will raise aggregate demand.

♦ Predict whether specific federal government policies will raise or lower aggregate demand.

♦ Predict whether actions of state and local governments, banks, and the Federal Reserve Board will tend to raise or to lower aggregate demand.

LESSON DESCRIPTION

Using a "bathtub" model, the teacher explains that government spending raises aggregate demand and that taxes lower aggregate demand. Working in groups, students complete one worksheet about New Deal policies and another about other forces affecting aggregate demand during the Great Depression. Students write brief answers to three essay questions.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activities 1 and 2.

PROCEDURE

1. Tell students that the New Deal was a set of government policies which the Roosevelt administration used to combat the problems of the Great Depression: unemployment, business failures and low farm income. Economists today believe that recovery from a depression can only come when aggregate demand (total spending) increases, but this way of looking at the economy as a whole was not widely understood at the time. Many New Deal policies actually had the effect of reducing the quantity of products sold. Other policies increased aggregate demand, but often as an unintentional side effect. How can we tell which policies would have the one effect or the other?

2. Display Visual 1. Tell the students that the bathtub in the upper picture represents the productive resources of the economy, and the water in the tub represents the combined spending of consumers, business firms, and government. When there is enough spending to buy everything that the economy is capable of producing, given the amount of available productive resources in the economy, the economy is fully employed. Everyone who wants a job either has one or can expect to get one in a reasonable period of time. This is the situation illustrated by the upper picture.

However, in 1929 demand for many products fell, and workers who made those products lost jobs. This situation is illustrated in the lower picture, as spending drains out of the economy and the water level falls below the full employment level.

In 1933, when the Roosevelt administration took office, consumer and business spending was very low. As a result, businesses were producing very little (why make products when people aren't willing or able to buy them?), and as a result of that many workers were unemployed. Show Visual 2. One aim of the Roosevelt administration was to try to increase spending to bring aggregate demand back up to the full employment level.

Tell students that during depressions the government can increase aggregate demand (raise the level of water in the bathtub) by spending more. However, if taxes are raised to fund the government's new spending, aggregate demand decreases. Economists say the government spending is an *injection* into aggregate demand, while taxes are a *leakage* out of aggregate demand.

3. Divide students into small groups and distribute Activity 1. Tell the groups to decide whether each government policy described would tend to increase or decrease aggregate demand. Discuss their responses.

Answers to Activity 1

Answers: 1.) increase (or hold constant) because it stopped the shrinkage of the money supply caused by failing banks; 2.) probably decrease because higher prices cause consumers to buy fewer units. 3.) increase because of payments to workers and for raw materials; 4.) increase; 5.) probably decrease for the same reason as answer 2; 6.) increase; 7.) increase, for the same reason as answer 3; 8.) increase; 9.) increase; 10.) decrease because taxes reduce consumer and business spending and there were not, as there are today, offsetting payments to recipients; 11.) decrease; 12.) increase.4

Tell the class that other forces besides the actions of the President and Congress affected the level of aggregate demand in the Depression years. Distribute Activity 2 for group work. Discuss responses.

Answers to Activity 2

Answers: 1.) State and local taxes had a negative effect on aggregate demand during the Depression because higher taxes to cover previous levels of government spending cut current consumption; 2.) after 1933, banks could have made many more loans than they did, which would have added to the money supply and to aggregate demand because higher taxes to cover prevails levels of government spending cut current consumption. 3.) increasing reserve requirements for banks reduced the ability of those banks to make loans.

CLOSURE

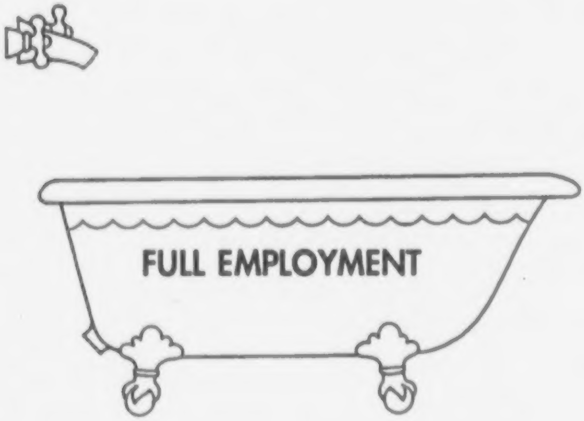
Assign students to write a brief essay in response to the following problems. Before students begin composing, review the sources of information provided in this lesson which they may draw upon in their essays.

A. In 1932 the U.S. unemployment rate was 23.6 percent. Alarmed because the federal government was in deficit (was spending more than it was receiving in taxes), the Hoover administration reduced spending and the Congress voted for a substantial tax increase. Predict how these actions probably affected the economy especially unemployment, demand, and production. (Consumers and business firms spent less, aggregate demand fell, production dropped, and unemployment increased.)

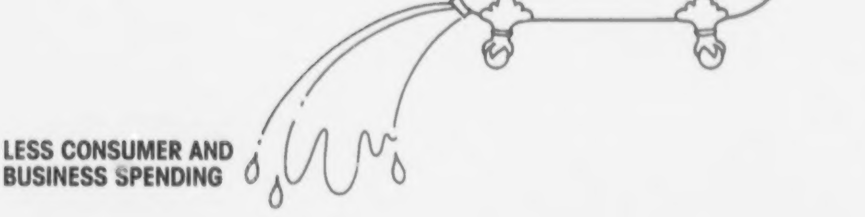
B. In late 1937 the U.S. economy began to slide back into a deep depression again. Unemployment, which had averaged 14.3 percent in 1937, was 19 percent in 1938. What factors do you think accounted for this? (The Social Security Act went into effect, raising taxes. In 1938, the federal government reduced its spending. Also, refer to all the answers to Activity 2.)

C. Like unemployment, inflation can be a serious threat to the economy. Inflation often occurs when the quantity demanded in the economy exceeds the quantity of available products. Consumers compete with each other by willingly paying higher prices for products, and business firms compete with each other by willingly paying higher prices for labor and raw materials. Under these circumstances, what might Congress do to reduce the level of aggregate demand in the economy? What might the Federal Reserve do? (To reduce the level of aggregate demand, Congress could raise taxes and/or reduce government spending, and the Federal Reserve could reduce the quantity of money in circulation.)

VISUAL 1
AT FULL EMPLOYMENT BATHTUB

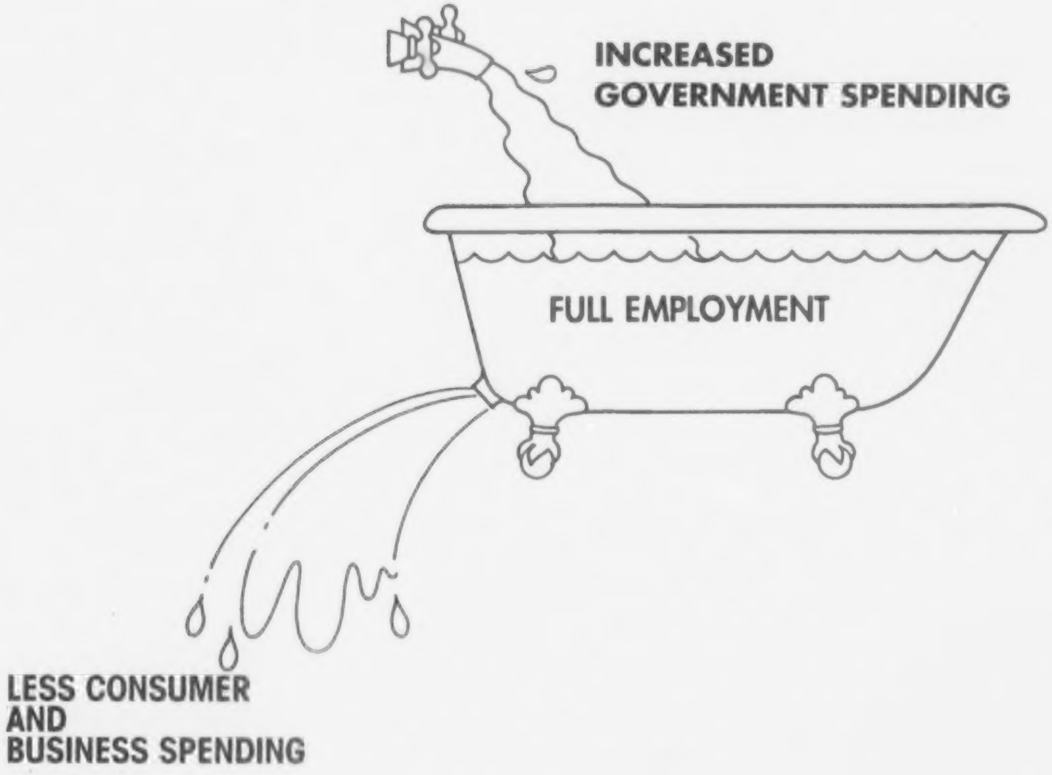

FULL EMPLOYMENT

BELOW FULL EMPLOYMENT BATHTUB


BELOW FULL EMPLOYMENT
LESS CONSUMER AND BUSINESS SPENDING

VISUAL 2

FULL EMPLOYMENT BATHTUB WITH GOVERNMENT SPENDING IN AND CONSUMER BUSINESS SPENDING OUT


INCREASED
GOVERNMENT SPENDING
FULL EMPLOYMENT
LESS CONSUMER
AND
BUSINESS SPENDING

Name_____________________

ACTIVITY 1
SOME NEW DEAL POLICIES

In front of each of the following New Deal policies, place an "I" if you think it increased total spending, or a "D" if you think it decreased total spending.

____1. One of Franklin Roosevelt's first acts upon assuming the Presidency was to declare a national "Bank Holiday." All the banks in the country were closed for several weeks. During that time, banks sold bonds to increase their cash holdings. The Federal Reserve Banks were also ordered to lend banks generous amounts of Federal Reserve notes against the government bonds that banks held. Federal auditors inspected the financial conditions of the banks and allowed the fundamentally sound banks to reopen. Within a month, most banks were reopened (though about 2,000 were permanently closed down). Public confidence was restored in the banking system and no new wave of bank failures occurred.

_____ 2. The Agricultural Adjustment Act (1933) was designed to raise the prices of major crops, beef, pork, and dairy products in order to increase the income of farmers. Farmers were limited in the number of acres they could plant and the size of herds they could maintain.

_____ 3. The Civilian Conservation Corps (1933) employed single men 18 to 25 years old to perform public work such as building state parks, water systems, roads, bridges, and dams. From 1933 to 1942, approximately 3 million young men were employed.

_____ 4. The Federal Emergency Relief Act (1933) made $500 million available to the states for payments to the unemployed.

_____5. The National Industrial Recovery Act (1933) was designed to reduce competition and raise prices. Business firms from individual industries met together and developed "codes of fair practice" in which they decided what prices to charge and how much each firm would produce.

_____6. Between 1933 and 1934, federal spending rose from $4.6 billion to $6.7 billion.

____ 7. The Works Progress Administration (1935) employed over 8 million people from 1935 to 1942 in constructing public works and producing other goods and services for the public benefit.

____ 8. In 1936 Congress voted a large one–time bonus for veterans of World War I.

____ 9. Federal spending rose from $6.5 billion in 1935 to $8.5 billion in 1936.

____ 10. The Social Security Act went into effect at the beginning of 1937, providing pensions for retired workers 65 years or older, for the disabled, and for other groups. Pensions were financed by a tax of 1 percent on employees and employers. Since pension payments were based on workers' and employers' contributions to the Social Security System, no workers were eligible for pensions for several years.

____11. Believing that the worst of the Depression was over, President Roosevelt urged Congress to reduce spending. In 1938, federal spending was $6.8 billion.

____12. As the United States became increasingly concerned with the threat of war, federal spending rose to $8.9 billion in 1939, $9.1 billion in 1940, and $13.3 billion in 1941.

Name______________________

ACTIVITY 2

OTHER ECONOMIC FORCES IN THE NEW DEAL YEARS

The policies of the President and Congress were not the only economic forces that affected aggregate demand in the 1930s. What do you think was the effect of each of the following upon total spending?

1. State and local governments, besieged by demands for unemployment and welfare relief in the early years of the Depression, raised taxes. State sales taxes became common in these years. By 1933, most states had balanced their budgets or were even showing surpluses. On average, state and local governments had balanced or surplus budgets from 1933 through 1940.

What effect would this have on aggregate demand?

2. The commercial banks that survived the Bank Holiday of 1933 were operated very conservatively. In case of another run on the banks in the future, bankers did not want to be caught again without enough reserves. In 1929, the ratio of cash to deposits had been 19.9. By the end of 1933, after the shakiest banks had closed, the ratio was 24.6. The ratio continued to rise steadily until 1940, when it was 42.5.

What effect would this have on aggregate demand?

3. In 1936, although the unemployment rate was still almost 17 percent, the Federal Reserve Board feared that economic recovery would ignite inflation, and it doubled bank reserve requirements.

What effect would this have on aggregate demand?

CAN HIGHER PRICES FOR AGRICULTURAL PRODUCTS HELP THE ECONOMY?

INTRODUCTION

History Americans did not react passively to the Depression. With leadership from the administration of Franklin D. Roosevelt, they enacted several new laws—referred to collectively as the New Deal—aimed at stimulating economic recovery. One of these was the Agricultural Adjustment Administration (AAA) Act of 1933. Another was the Social Security Act of 1935. It provided for a tax to be deducted from workers' wages; the revenue was deposited in a fund from which benefits would be paid out to workers when they retired. Both laws were intended to put more money into the hands of Americans.

Mystery Laws providing for price supports and retirement income seemed tailor-made to aid the recovery. How could they have had the unintended effect of slowing recovery down?

Economic History The new legislation changed some of the rules within which the economy operated. The change created new incentives and disincentives. Higher prices for farm products discouraged consumption of those products. The Social Security tax on wages decreased consumers' income. Both outcomes reduced people's incentive to spend on goods and services. Lower individual spending contributed to lower national income levels, reducing aggregate demand at a time when the economy needed increased aggregate demand.

CONCEPTS

Markets
Supply
Demand
Price
Subsidies

OBJECTIVES

- Use supply and demand analysis to summarize the consequences of reducing milk supplies.
- Evaluate the impact of higher food prices on aggregate demand.
- Infer why government policies that reduce production and raise prices are politically popular.

LESSON DESCRIPTION

Students will use graphs depicting supply and demand conditions in the milk market to evaluate the impact of New Deal legislation on the national economy.

TIME REQUIRED

- One class period

MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activity 1.

PROCEDURE

1. Explain that the purpose of this lesson is to analyze the effects of the Agricultural Adjustment Act (AAA), which was intended to help raise farmers' incomes during the Great Depression, and the Social Security Act which was included to rase retirees' incomes.

2. Explain to students that the AAA was intended to reduce the supply of farm products in order to raise prices. The context of low prices is well illustrated by an "Emergency pig slaughter" initiated in August 1933 by Henry Wallace, Secretary of Agriculture. The pig slaughtering was supported by farmers. Display Visual 1 and read the quotation to students.

3. Distribute Activity 1 to the class. Ask students to use economic reasoning to predict why price supports would hurt the economy. Remind them that people respond to incentives. Prices are incentives. If the government changes the rules that determine prices, this will influence people's behavior in ways that the government may not have intended.

4. You may wish to display Visual 2. It is a reproduction of the graph in Activity 1. Discuss the students' responses to Activity 1 by using this diagram. *Ask:*
   A. What is the current market clearing price (MCP) for milk? (30¢)

B. What is the quantity demanded and the quantity supplied at MCP? (100 gallons of milk)

C. If the AAA had successfully reduced the milk output to one–half the previous production level (S_2), what would be the MCP and the market output of milk? (MCP = 50¢, Quantity Demanded = 50, Quantity Supplied = 50)

D. What impact does this change have on consumers? (Prices rise and consumption falls. In other words, consumers spend more money to eat less.)

E. What impact does this change have on farmers? (It raises milk prices, but dairy farmers produce less milk and earn less income. In this example, overall farm income declines by $5. Why? (Old farm income was quantity supplied x price, or 100 x 30¢ = $30; New farm income is quantity supplied x price, or 50 x 50¢ = $25.)

F. Did the increased prices help all farmers?(No; total income earned from milk sales has dropped, so some farmers will not be able to stay in the milk business. Only the remaining farmers will receive increased incomes.)

G. Do the increased prices help consumers? (No; milk consumption will fall as prices rise. Now milk is more expensive in a country where many people are poor. In a sense, the policies of the AAA acted like a tax increase on consumers.)

5. Ask the students to draw a conclusion about the effectiveness of the AAA and similar programs. (Programs like the AAA probably hampered the nation's recovery from the Depression. These laws raised prices and reduced output in an economy that already was operating far below its capacity. A much better policy would have been to provide consumers with more income so aggregate demand could grow. Increased aggregate demand would have raised farm prices and encouraged greater output.)

6. Describe the Dust Bowl conditions to the students. By 1934, several years of the worst drought in American history had hurt farmers in the Great Plains. Dust storms became commonplace. Farmers watched helplessly as the wind blew powder–dry topsoil from their fields. Hundreds of thousands of small farmers and cattle ranchers were ruined by these catastrophes and were forced to leave their homes and migrate westward in search of work. As a result, farm output was drastically reduced. The nation's wheat crop, more than 850 million bushels in 1932, shrank to 550 million bushels in 1935, and the decrease in production led to a rise in wheat prices. Other crops and livestock were affected in the same way. Nature did what the AAA attempted to do. AAA was not necessary to raise farm prices and it contributed to an unnecessary drop in output at a time when many consumers had too little to eat.

7. Explain to students that in 1937–1938 the following events took place: The country slipped back into recession again after four years of growth. The Social Security system was also begun in 1937 and the first Social Security taxes were taken from employee paychecks. What might these two events have to do with each other? Ask students to speculate about the effect of a tax increase on a recovering economy.

8. Explain that the Social Security tax probably caused the recession. Increased taxes, even for a popular idea like Social Security, reduce aggregate demand for goods and services. Social Security benefited a small number of elderly people, but it initially reduced the incomes of everyone else and contributed to negative economic growth.

9. Point out that both the AAA and Social Security were politically popular among many Americans. Why would people support laws which reduced output and raised prices? Encourage students to imagine some groups, such as producers of some farm products, who would benefit.

10. Explain that sometimes good politics is not wise economic policy. In these cases, each policy in question imposed high costs, but the costs

were spread out over many people, so that no one individual had to bear a large cost. If the price of pork chops increases by 10 cents per pound, consumers will not stage a boycott. If their payroll taxes increase by a few cents per month, workers will not likely protest. Meanwhile, the benefits (although less than the total costs) are shared by only a few people, and in a very direct way. These people receive a check from the government or higher prices for their production. They will be very willing to work hard to reelect lawmakers who voted for the policies that benefited them.

CLOSURE

Review the effects of the AAA and Social Security legislation on economic growth and recovery. *Ask:*

A. Explain how the AAA slowed economic growth. (Reducing the supply of milk and other products decreased the number of producers and raised prices for consumers.)

B. Explain how Social Security slowed economic growth. (New taxes for Social Security benefited a few but reduced incomes of everyone else.)

VISUAL 1

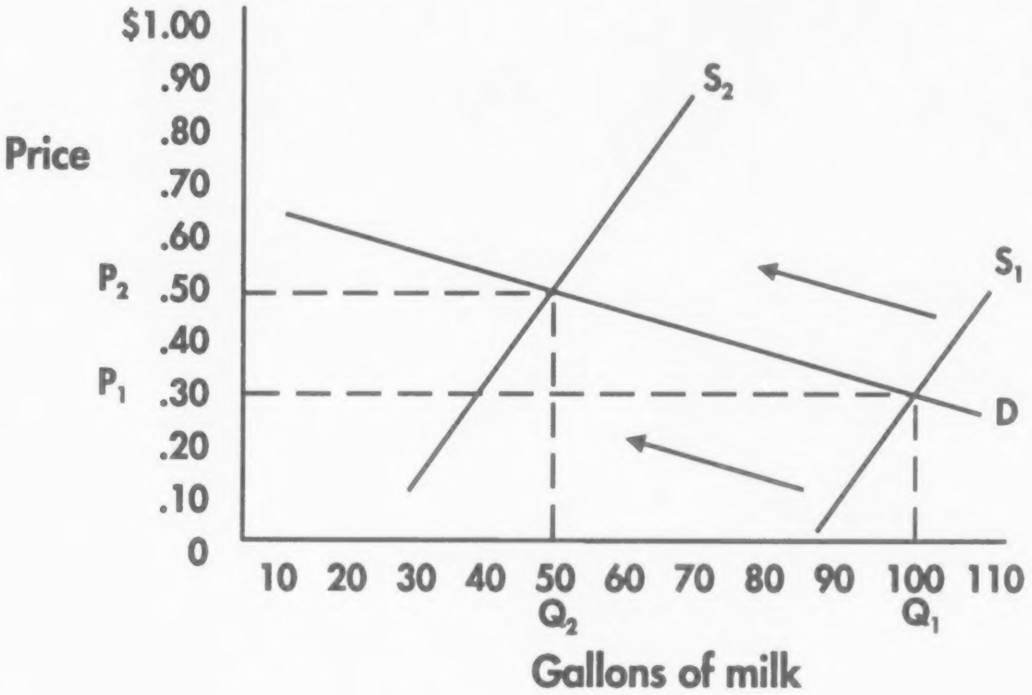
OSCAR HELINE ON THE AAA

The program came from the farmers themselves, you betcha. We had twice too many pigs because corn'd been so cheap. And we set up what people called Wallace's Folly: killing little pigs. Another farmer and I helped develop this. We couldn't afford to feed forty–five–cent corn to a three–dollar pig. So we had to figure a way of getting rid of the surplus pigs. We went out and bought and killed 'em. This is how desperate it was. It was the only way to raise the price of pigs. Most of 'em were dumped down the river.

Oscar Heline,
Former lobbyist for the state
cooperative in Iowa. Quoted
by Studs Terkel in *The Atlantic*,
March 1970, p. 82.

VISUAL 2

CUTTING MILK SUPPLIES



Name____________________

ACTIVITY 1
CUTTING MILK SUPPLIES

THE AGRICULTURAL ADJUSTMENT ADMINISTRATION

The Agricultural Adjustment Administration (AAA) was established in 1933. Its goal was to support farm prices and to control the production of farm products. From the beginning, the AAA was controversial. It ordered that 6 million young pigs be killed. There was fear that if these pigs were brought to market, the price of pork would decline and decrease the income of farmers.

Similar policies were followed to increase the price of products such as milk and cotton. Millions of gallons of milk were dumped on the ground. Millions of acres of growing cotton were plowed under. The idea was to reduce supplies so that prices would increase.

ECONOMIC MYSTERY

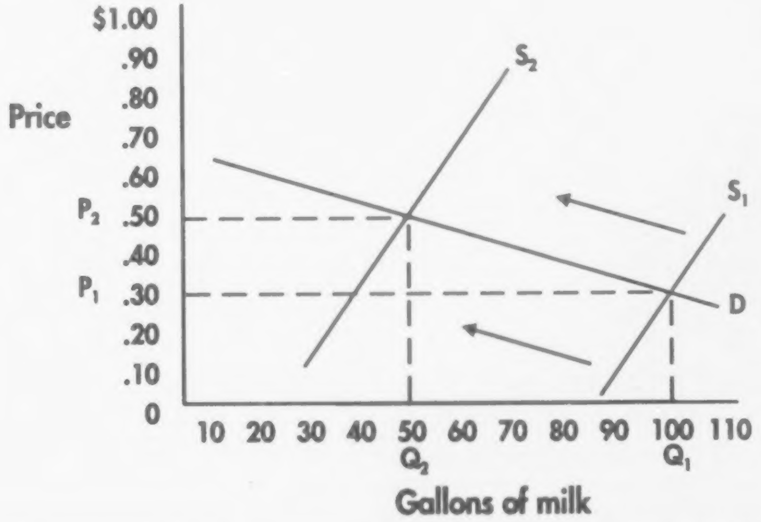
The purpose of the AAA was to help farmers by increasing prices of farm products. The result of this well–intentioned policy was to slow down the nation's recovery from the Great Depression. Instead of providing a dose of economic medicine, it provided poison.

Why were price supports bad for the economy?

A GRAPH HAS THE CLUES

To solve the mystery, examine the graph below. Answering the following questions will provide clues to help you solve the mystery of price supports.

1. What is the current market clearing price (MCP) for milk?
2. What is the quantity demanded and the quantity supplied at MCP?
3. If the AAA had successfully reduced the milk output to one–half the previous production level (S_2), what would be the MCP and the market output of milk?
4. What impact does this change have on consumers?
5. What impact does this change have on farmers?
6. Did the increased prices help all farmers?
7. Do the increased prices help consumers?



From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

WE SHALL NOT BE MOVED

INTRODUCTION

History In the late 19th and early 20th century, many unions had organized, including the Knights of Labor founded in 1869, and the American Federation of Labor in 1881. While organized labor showed some gains, they encountered many setbacks.

Mystery Through much of U.S. history, union membership remained relatively low, never exceeding 12 percent of the labor force and usually remaining well below 10 percent. In 1935, union membership more than doubled going from 7.4 percent in 1930 to 17.2 percent in 1935? Why?

Economic Reasoning New legislation changed the rules of the economic system. Passage of the Wagner Act in 1935 reversed the role of the federal government from opposing organized labor to insuring the rights of workers to organize.

CONCEPTS

Choice
Incentives
Rules of the Economic System

OBJECTIVES

♦ Analyze data on the growth of unions early in he 20th century.

♦ Recognize how legislation such as the Norris-LaGuardia Act of 1932 and the Wagner Act of 1935 changed the rules of the economic system by giving unions a legal right to organize and encourage membership.

LESSON DESCRIPTION

Students read the lyrics to a union song. They examine statistics on union membership as a percentage of the labor force and then use economic reasoning to study why union membership increased in 1935.

TIME REQUIRED

♦ One Class Period

MATERIALS

One transparency of Visuals 1, 2, 3, and 4.
One copy for each student of Activity 1.
If you (or one of your students) can sing and play a few chords on the guitar, play the song "We Shall Not be Moved" for the class. See procedure 2.

PROCEDURE

1. Explain that the purpose of this lesson is to examine why union membership changed after 1935.

2. Distribute Activity 1. *Ask:* What seems to be the purpose of this song? (The song stresses the importance for union members to unite so that their demands would be met.)

3. Explain that the old spiritual, "We Shall Not Be Moved," gained sudden popularity in the 1930s when it was revised by labor organizers to be a union song . Unions had fewer members earlier in U.S. history.

4. Display Visual 1. *Ask:* How successful were unions prior to 1935? (Union membership never exceeded 12 percent of the labor force and was usually well below 10 percent.)

5. Display Visual 2. *Ask* the class to speculate on possible explanations to this mystery.

6. Display Visual 3 and review the *Handy Dandy Guide*. Explain that economic reasoning suggests that the rules of the economic system influence choices and incentives. A change in the rules of the economic system may help explain why unions were more successful after 1935.

7. Display Visual 4. Note how provisions of the Norris-LaGuardia Act of 1932 and the Wagner Act of 1935 helped give unions legal rights to organize. These new rules of the economic system influenced the choices of workers to join unions. No longer discouraged by government threats, unions were able to run campaigns and allow workers to choose.

CLOSURE

Remind the class that the purpose of this lesson is to use economic reasoning to analyze changes in union membership during the New Deal. Review how a change in the rules of the economic system can influence choices and incentives. *Ask:*

How did the Norris-LaGuardia Act of 1932 influence the choices of workers? (It stopped local courts from issuing injunctions to oppose union campaigns, making it possible for workers join unions.)

How did the Wagner Act of 1935 influence the choices of workers? (It gave unions a legal right to organize, making it easier for workers to join unions. The Wagner Act also established the National Labor Relations Board, which supervised union elections.

VISUAL 1

UNION MEMBERSHIP

Year	*Percentage of Labor Force Composed of Union Members*
1890	1.4
1900	2.7
1910	5.6
1920	12.1
1930	7.4
1935	16.6
1940	15.9
1945	22.6
1950	22.9
1960	24.5

Source: Stanley Lebergott, "The American Labor Force" in Lance Davis et al. *American Economic Growth* (Harper & Row, 1971) p.220

VISUAL 2

THE UNION MEMBERSHIP MYSTERY

Through much of U.S. history, union membership remained relatively low, never exceeding 12 percent of the labor force and usually settling well below 12 percent. In 1935 union membership more that doubled, from 7.4 percent in 1930 to 17.2 percent in 1935? Why?

VISUAL 3

THE HANDY DANDY GUIDE

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

VISUAL 4

THE NEW DEAL ENACTS NEW RULES

A CHANGE IN THE RULES

New Deal legislation changed the federal government from being opposed or (at best) neutral toward organized labor to being an ally.

> The Norris-LaGuardia Act of 1932 stopped local courts from issuing injunctions against union membership campaigns.
>
> The Wagner Act of 1935 gave unions a legal right to organize.
>
> The Wagner Act established the National Labor Relations Board which supervised union elections.

THE RESULTS

Workers seeking higher wages or other changes could more easily join a union.

The Congress of Industrial Organizations, lead by John L. Lewis, won battles to organize General Motors and Chrysler in 1937 and Ford in 1941.

The steel, chemicals, rubber, and glass industries were successfully organized.

ACTIVITY 1
WE SHALL NOT BE MOVED

"We Shall Not Be Moved" is a spiritual which was rewritten and adapted for use by organizers during the labor movement of the 1930s. The Southern Tenant Farmers Union started using it, and it spread around the country.

LYRICS

We shall not,
We shall not be moved
We shall not,
We shall not be moved,
Just like a tree that's standing by the water,
We shall not be moved.

The union is behind us,
We shall not be moved,
The union is behind us,
We shall not be moved,
Just like a tree that's standing by the water,
We shall not be moved.

We will stand and fight together,
We shall not be moved,
We will stand and fight together,
We will not be moved,
Just like a tree that's standing by the water,
We shall not be moved.

We are black and white together,
We shall not be moved,
We are black and white together,
We will not be moved,
Just like a tree that's standing by the water,
We shall not be moved.

QUESTION FOR DISCUSSION

What seems to be the purpose of this song?

SAMPLE TEST ITEMS

LESSON 1

When demand falls for durable goods such as houses, furniture, appliances, and cars, workers who produce those goods lose jobs and income, and a *multiplier effect* tends to occur. The meaning of the term *multiplier effect* is that

A. Demand for nondurable goods increases and more workers are hired in these industries.

✓B. Laid-off workers spend less, which reduces demand and jobs in other industries.

C. The government multiplies its spending to compensate for the fall in demand in durable goods industries.

D. The Federal Reserve increases the money in circulation in order to increase demand.

2. Which of the following BOTH tend to cause unemployment?

A. A decrease in consumer and business spending and an increase in the money supply.

B. An increase in consumer and business spending and an increase in the money supply.

✓C. A decrease in consumer and business spending and a decrease in the money supply.

D. An increase in consumer and business spending and a decrease in the money supply.

LESSON 2

1. If most people in the economy are concerned about their economic future and reduce their spending to prepare for "bad times," which of the following events is most likely to occur?

✓A. The amount of voluntary trade declines.

B. Businesses experience increased sales.

C. Businesses hire more workers.

D. Government tax revenues increase.

2. Which of the following events will encourage consumers to increase their spending (an incentive to spend)?

A. Product prices fall.

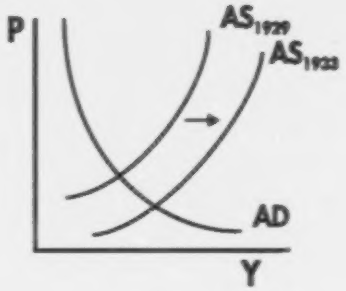
B. Interest rates fall.

C. Consumer incomes rise.

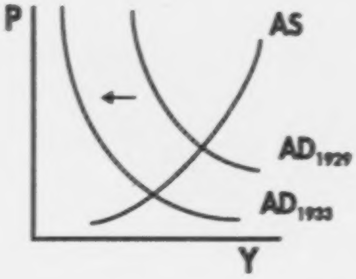
✓D. All of the above answers are correct.

3. Which of the following graphs best illustrates that happened to the U.S. economy from 1929 to 1933?

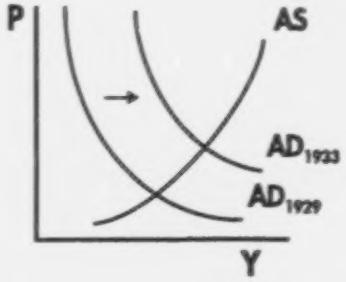
A.



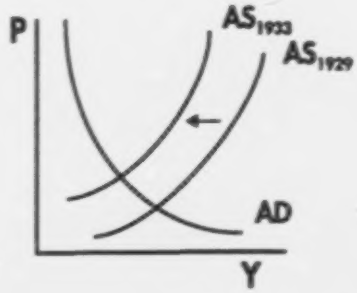
✓B.



C.



D.



4. Which of the following answers best explains why income seemed to disappear in the U.S. economy from 1929 to 1933?

A. Angry protesters upset about the economy burned money during demonstrations.
B. Income used to buy imported products was used by foreign consumers to buy products in their country.
✓C. Consumers tended to hold income as savings longer and cut spending to buy goods and services.
D. The U.S. government stopped printing new dollar bills to replace old worn out dollar bills.

LESSON 3

1. When Maria and Arnold and Fred chose to borrow money in the 1920s, they did not know that the Great Depression would develop by the 1930s. Because they did not have the money to pay back their loans in the 1930s, Maria lost her home, and Fred lost his farm. Which of the following best explains the experiences of Maria and Fred?

A. People gain when they trade voluntarily.
B. Borrowing money is never a good idea.
✓C. The consequence of choices lie in the future.
D. Maria and Fred were both very poor money managers.

2. Describe an example of *economizing* from your own life. List two alternatives that you considered and the costs and benefits of each. Then explain why you made the choice that you made.

ALTERNATIVE 1:____________________
COSTS:____________________
BENEFITS:____________________
ALTERNATIVE 2:____________________
COSTS:____________________
BENEFITS:____________________

Your Choice and Why You Made It:__________

3. In 1933, the prices of many items (homes, clothes, food, automobiles) were lower than the prices of the same items in 1929. Yet people bought fewer items in 1933 than in 1929. Which of the following statements best explains why consumer purchases declined in 1933 compared to 1929?

✓A. People were concerned about losing their jobs.
B. People failed to economize and did not notice the lower prices.
C. Business refused to produce items at the lower prices.
D. Cost is not an important consideration when consumers decide to buy homes, clothes, food, or automobiles.

4. In the 1930s some farmers destroyed their crops and killed their animals rather than sell these food items to hungry people. Which of the following statements best explains the farmers' behavior?

A. Disease and bad weather left farmers with little choice but the destroy crops and livestock.
B. Poor transportation in the 1930s meant that hungry people living far away from farmers could not obtain the food.
C. The U.S. Government wanted farmers to send the food to Germany, and they refused by destroying crops and animals.
✓D. It cost farmers more to produce the food for market than they would receive from the sale of the food.

LESSON 4

1. Deficit spending by the federal government during the Depression years—1933–1940—tended to

✓A. Increase aggregate demand and increase production and jobs.
B. Decrease aggregate demand and decrease production and jobs.
C. Increase aggregate demand and decrease production and jobs.
D. Decrease aggregate demand and increase production and jobs.

2. Higher taxes at a time when unemployment is high tend to

A. Increase aggregate demand and increase production and jobs.

✓B. Decrease aggregate demand and decrease production and jobs.
C. Increase aggregate demand and decrease production and jobs.
D. Decrease aggregate demand and increase production and jobs.

3. During most of the New Deal period, the policy of the Federal Reserve System was to

A. Increase the quantity of money available, which tended to raise the level of aggregate demand in the economy.
B. Decrease the quantity of money available, which tended to raise the level of aggregate demand in the economy.
C. Increase the quantity of money available, which tended to lower the level of aggregate demand in the economy.
✓D. Decrease the quantity of money available, which tended to lower the level of aggregate demand in the economy.

LESSON 5

1. The purpose of the Agricultural Adjustment Act of 1933 was to raise farm prices so that farmers would have more income. The purpose of the National Industrial Recovery Act of 1933 was to raise prices of manufactured goods so that business firms would have more income. What negative effect might have been predicted when these measures were put into effect?

A. Farmers and business firms would have resented government interference in their decision making.
✓B. Consumers who paid higher prices for some products would buy fewer of these products and have less money to spend for other products, thus decreasing total production in the economy.
C. The income of consumers and business firms would have increased to the point that there was too much aggregate demand in the economy, leading to inflation.
D. Higher prices would have been an incentive for consumers to buy more products, leading to too much aggregate demand and the threat of inflation.lesson 6

LESSON 6

1. For most of U.S. history before 1935, the percentage of labor force composed of union members was

✓A. Less than 12%
B. Greater than 25%
C. Greater than 33%
D. Less than 2%

2. Use economic reasoning to explain the increase in labor union membership starting in 1935.

Possible Answer: Economic reasoning suggests that the rules of the economic system influence choices and incentives. A change in the rules of the economic system may help explain why unions were more successful after 1935. The provisions of the Norris-LaGuardia Act of 1932 and the Wagner Act of 1935 helped give unions legal rights to organize. These new rules influenced the choices of workers to join unions. No longer discouraged by government threats, unions were able to run campaigns, permitting workers to choose.

ECONOMIC GROWTH AFTER WORLD WAR II

UNIT 8 INVESTIGATES some key economic issues associated with the period after World War II. Topics include the unexpected growth of the economy after World War II, American migration, deficit spending, and the importance of world trade to the U.S. economy. A case study is presented of the music industry as a source of income.

Lesson 1 examines the fears of many Americans in 1946 that, once the troops returned home and military spending was curtailed, the economy would return to the depression from which it had emerged in World War II. The lesson explains why the economy returned instead to a path of economic growth.

Lesson 2 focuses on causes of the greater mobility of Americans as a people on the move following World War II. It features a case study of why people who are not sinners would decide to live in "Sin City."

Lesson 3 addresses rock and roll music as a new source of economic activity after 1955. The students react to a case study on the rock legend, Chuck Berry.

GROWTH AFTER WORLD WAR II

INTRODUCTION

History More that 16 million Americans served in the armed forces in World War II. When the war ended, President Harry Truman faced extreme pressure "to bring the boys home." The sudden return of the veterans and the shift from a wartime to a peacetime economy brought new worries.

Mystery Given the difficulties associated with redirecting the economy toward civilian employment and production, what accounted for the fact that the economy surged forward after the war?

Economic History A principle of economic reasoning is that people respond to incentives in predictable ways. After World War II producers responded to increases in consumer spending and the resulting opportunities for greater profits. The resulting level of aggregate demand was sufficiently high to return the nation to its historic path of economic growth.

CONCEPT

Aggregate Demand

OBJECTIVES

- Analyze the role of the federal government in the economy during World War II.
- Identify factors that might have contributed to a downturn in the U.S. economy following World War II, reducing aggregate demand.
- Identify the effects of increased aggregate demand, and of changes in the work force, on U.S. economic growth after World War II.

LESSON DESCRIPTION

By referring to a series of visuals for information about the economy during and immediately after World War II, students seek to explain why the U.S. economy continued to grow after 1945.

TIME REQUIRED

- One class period

MATERIALS

One transparency each of Visuals 1, 2, 3, and 4.

PROCEDURE

1. Explain that the purpose of this lesson is to examine how the U.S. economy changed during and immediately after World War II.

2. Display the mystery in Visual 1. Encourage the students to speculate on reasons why the economy grew after World War II. Remind the class that Principle 3 of the *Handy Dandy Guide* states that people respond to incentives in predictable ways. Somehow, producers must have been responding to a renewal of spending in the economy.

3. Display and discuss the points on Visual 2. Explain that labor, production, and government spending during World War II were totally devoted to the war effort. ***Ask:*** What would be the effect of these changes on aggregate demand? (The increase in federal spending increased aggregate demand. The economy operated at full capacity.)

4. Tell the class that many citizens feared that the depression which preceded World War II would return at the end of the war. Display Visual 3 and discuss the fears about the reduced role of government and increased competition in labor markets. ***Ask:*** What would be the effect of these changes on aggregate demand, production, and employment? (If these changes took place, there would be a decrease in aggregate demand. Production and employment would decrease.)

5. Display Visual 4 and discuss why the U.S. economy did not collapse. Stress that consumer spending increased while the departure of women from the work force and the effects of the GI bill limited competition for jobs. ***Ask:*** What effect did these actions have on aggregate demand? (The explosion of consumer spending combined with government spending on such efforts as the GI bill increased aggregate demand. The economy returned to a path of economic growth.)

CLOSURE

Emphasize the point that unexpectedly high levels of consumer spending kept the U.S. economy growing after World War II. Ask students whether they would expect the same experience to be repeated after the Korean War. The Vietnam War? (There was little reason to expect that consumers would spend at comparably high levels following either the Korean War or the Vietnam War. The U.S. economy was running at levels much closer to full employment before and during these wars than it was before World War II, and therefore there was less built-up demand.)

VISUAL 1

ECONOMIC MYSTERY WHY DID THE U.S. ECONOMY GROW AFTER WORLD WAR II?

Before World War II, the United States had experienced 10 years of economic depression. Government spending during World War II had ended the economic slump. But people feared that when the war ended and the troops returned home, the economy would again slacken as it had after nearly every other war in U.S. history. People wondered what the winter of 1946 would bring.

The U.S. economy did not collapse. Instead, it returned to its historic path of economic growth. Why?

VISUAL 2

THE U.S. ECONOMY DURING WORLD WAR II

Labor

In September 1940, the U.S. Congress passed legislation authorizing a draft to induct men aged 18–27 into the military. After December 7, 1941, many Americans enlisted voluntarily in the armed forces. Altogether, 15 million American men and women served between 1940 and 1946.

Civilians in industries related to the war effort (farmers and copper miners, for example) were deferred from the draft.

Women entered the labor force in record numbers to fill positions vacated by soldiers.

Production

The War Production Board earmarked production of steel, aluminum, copper, and rubber for the armed services.

Production of many civilian products (houses and cars, for example) virtually stopped.

Government Spending

Federal defense spending increased by $72 billion.

The federal debt went from $49 billion in 1941 to nearly $259 billion in 1945.

Question: What would be the effect of these changes on aggregate demand?

VISUAL 3

FEARS OF ECONOMIC COLLAPSE

A bank official in Chicago declared near the end of the war: "We do not care to invest our money . . . in Southern California . . . because we are convinced that when the war is over Los Angeles is going to become a ghost town."*

Reduced Role of Government After the War

Government orders for goods and services would drop, reducing aggregate demand.

Elimination of government wage and price controls would permit resumed inflation.

Labor After the War

Eight million soldiers would return to the civilian work force.

It would take time the redirect the economy to civilian production, and jobs in the meanwhile would be hard to find.

Increased competition for jobs would drive wages down.

Question: What would be the effects of these changes on aggregate demand, production, and employment?

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*Source: J. Howard Edgertown, *The Story of California Federal Savings*, 1969, p. 13.

VISUAL 4

THE POSTWAR ECONOMY

Federal Spending

Federal spending dropped as predicted.

Consumer Spending

Consumer spending increased at levels that were not predicted.

Returning GIs cashed in savings from war bonds and spent $18 billion on everything from clothing to cars to homes.

Labor

Unemployment rose after the war, but increases in unemployment were offset by other changes:

Millions of women, who previously had taken jobs vacated by men who went to war, left the labor force.

About 1 million former servicemen used benefits available from the GI bill to get a college education, delaying their entry into the labor market.

About 1 million former servicemen used benefits available from the GI bill to open new businesses.

Question: What were the effects of these actions on aggregate demand?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

WHY LIVE IN "SIN CITY" IF YOU ARE NOT A SINNER?

INTRODUCTION

History After World War II, the U.S. population became highly mobile. People from the South moved to the North. People from the East moved to the West. People from rural areas moved into cities. People from cities moved into new suburban areas.

Mystery Some people migrated to the new city of Las Vegas, which was growing rapidly in what otherwise was a barren, unpopulated desert. What might prompt thousands of ordinary Americans to move to a remote city known chiefly as a center for gambling and related activity? Was it wanderlust—an irrational itch to move?

Economic History Migration reflects market forces. Cities and other regions compete to attract and retain residents. Incentives play an important part in the migration of people. By a variety of legislative acts, and by use of technology, the state of Nevada and the city of Las Vegas created incentives that attracted new residents.

CONCEPTS

Migration
Incentives
Costs

OBJECTIVE

♦ Use the *Handy Dandy Guide* to evaluate clues and solve the mystery of why Las Vegas grew.

LESSON DESCRIPTION

Students discuss their current knowledge of Las Vegas, read a case study, and use the *Handy Dandy Guide* to evaluate clues about the growth of Las Vegas.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activities 1 and 2.

PROCEDURE

1. Explain that the purpose of this lesson is to explain why so many Americans were on the move across the country in the decades after World War II.

2. Display the mystery in Visual 1. Point out that Las Vegas was the fastest-growing city in the United States and its growth came from families and retirees who moved to Las Vegas to become permanent residents.

3. Display the *Handy Dandy Guide* in Visual 2. Encourage the students to speculate on which principles might help explain this movement of people. Suggest that the answer to the mystery lies in principles involving choice, costs, incentives, and the rules of the economic system.

4. Distribute Activity 1 and ask the students to use economic reasoning to identify the changes in incentives and the costs which influenced individual to choose to migrate to Las Vegas temporarily and permanently. (Streamlined divorce laws and gambling attracted temporary migrants. The warm climate and low rate of crime attracted senior citizens seeking permanent retirement homes. Less crowding, new jobs, and relatively inexpensive housing attracted families.)

5. When students have read Activity 1, distribute Activity 2. Ask the students to use economic reasoning to decide which statements describe incentives which influenced the growth of Las Vegas. Discuss the students' responses.

Answers for Activity 2:
1. D, 2. D, 3. I, 4. I, 5. I, 6. I, 7. I, 8. I, 9. NA, 10. I, 11. I, 12. I, 13. DI, 14. I, 15. I, 16, I.

CLOSURE

Explain that, like other migrations in U.S. history, the migration of people to Las Vegas can be understood by using economic reasoning. People move when the combination of benefits and costs is more advantageous to them than remaining in their present locations. When a political and economic system (the rules) allows people to have a large amount of individual freedom (mobility), and the economy changes rapidly, we would expect people to move as they seek better opportunities.

Tell the class that current growth in Las Vegas is beginning to create some problems including increased traffic, longer commuter travel time, air pollution, inadequate mass transit, water shortages, growing crime, and large classes in schools. Might this development set the stage for a new migration out of Las Vegas?

VISUAL 1

ECONOMIC MYSTERY
WHY LIVE IN "SIN CITY" IF YOU ARE NOT A SINNER?

Why would large numbers of people who believe in family values choose to live in a city notorious for its disregard of family values?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

VISUAL TWO

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

Name______________________

ACTIVITY 1
FAMILIES AND RETIREES FLOCK TO "SIN CITY"

AMERICANS MOVE FROM ONE PLACE TO another. Migration has always been an important factor in U.S. history, beginning with the first Americans who crossed from Siberia to Alaska thousands of years ago. In the period after World War II, Americans moved west toward California and south to the "Sunbelt." People moved from farms to the city and from the city to the suburbs.

Why do people choose to move? Often people move because they have some incentive to do so. Perhaps a better job is available near their new home. Perhaps they think that better schools will be available for their children. Perhaps they think that the new climate will be more comfortable than their current climate. If cities and regions want to attract migrants, they have to figure out which incentives might be most compelling to people who might be thinking about a move. Since these incentives may change over time, the cities, regions, and nations that want to attract new workers and businesses must make important decisions. Perhaps some feature of a place was once an attractive incentive, but is so no longer—should the people seek to change the place in that respect? Doing so may mean making changes in the traditions or customs of the area, or change may affect the environment, traffic density, or general living quality. Failure to change, however, may mean loss of new businesses, less growth, and perhaps even a migration from the area.

TEMPORARY MIGRANTS

Suppose people in an area think that they cannot attract migrants who will settle permanently, but they can provide incentives to attract temporary migrants. Would this make sense?

Another word for temporary migrant is "tourist." In the past century, tourism has grown considerably as a sector of the American economy. If an area can appeal to tourists, it can create jobs and other incentives (because the tourists need food, housing, services, and more) that may attract permanent residents.

So, why do people choose to migrate, temporarily or permanently? How, in a nation of migrants, does a specific city or region develop features that will act as incentives for migrants to choose *that* place? Answering these questions should help you understand how the economic vitality of certain cities and regions varies throughout history. It should also help you understand how American migrants, bringing their money and skills to a particular city or region, have responded to different incentives over the past century.

LAS VEGAS

Let's ask these questions about Las Vegas, Nevada. In some ways, Las Vegas may seem unusual (not many cities have huge neon signs standing dozens of feet above the ground, or slot machines in the supermarkets), but like other American communities, Las Vegas has had to face difficult choices and has worked to attract migrants (temporary and permanent) to enhance the growth of its community.

Before you read about incentives that Las Vegas devised to attract migrants, think about the needs of Americans in the 1800s. You have already considered westward migration and the Homestead Act. If you know that Las Vegas sits in a very hot, dry desert, with few sources of water, guess how popular it was as a destination for travelers in the 1800s? If you guessed "not very," you are right. Travelers camped in the area en route to southern California along the Old Spanish Trail, and then moved immediately on. The area was so unappealing to settlers that Las Vegas did not incorporate as a town until 1911.

DIVORCE MADE EASY

In the early 1900s, Las Vegas and most other towns in Nevada were looking for ways to attract migrants. The Nevada legislators decided that loose divorce laws might do so. They passed legislation to cut some of the usual costs of divorce guaranteeing divorces as long as the person obtaining the divorce lived in the state for six months.

This relatively short residence requirement was long enough to bring revenues to Nevada, since the divorce-seekers had to live and eat during the six-month wait. Nevada lawyers prospered and began to advertise in newspapers in the Midwest and East. By 1910, 300 people per year sought a "Nevada divorce," usually by taking up residence in Reno or Las Vegas. Because they believed that other states in the Southwest might try to draw the "divorce migrants" away from Nevada, Nevada

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

legislators in 1927 lowered the residency requirement to three months further decreasing the costs of divorce. Then, when competitor states seemed likely to undercut this requirement (and as the Great Depression stiffened economic conditions around the nation), the legislature dropped the time to six weeks in 1931.

But what would a divorce-seeker do with his or her time while waiting? And how could Las Vegas profit from this group of temporary migrants?

The six-week requirement drew more than 5,000 divorce-seekers to Nevada in its first year, but fewer than 500 spent their time in Las Vegas (Reno was more popular). To draw more of the lucrative divorce market *and* to make money from those people waiting six weeks to qualify for a divorce, Las Vegas turned to gambling.

GAMBLING MADE LEGAL

In 1931, as it eased the residency rule, Nevada's legislature also legalized gambling. The U.S. government was at the same time building a huge dam near Las Vegas, and a group of workers was living in the area for that project. Las Vegas used these factors (and its proximity to Los Angeles and other California population centers) to launch itself as a casino city. Gambling in some form has always occurred throughout the United States, but because it was illegal in most places, gamblers usually were considered immoral. Las Vegas concentrated on making gambling attractive. It imitated the growing popularity of Los Angeles and Hollywood by developing elegant hotels, with swimming pools, and offering plenty of glamorous entertainment. People came to gamble, but they also came to see and hear a famous singer or to play golf. By the mid-1950s, visitors to Las Vegas spent around $20 million on entertainment alone.

COOL AIR, WATER SUPPLY, CRIME

Much of this success reflected other developments from the 1930s to the 1950s—technology, for example, helped the casinos and hotels to overcome the heat and dryness that had made Las Vegas so unattractive in the 1800s. With air conditioning in most buildings, visitors could ignore the 110° temperature outside.

The big dam built by the U.S. government provided irrigation and water for the area, so greenbelts could grow. All around the city, the harsh desert still existed, but within Las Vegas waterfalls could tumble, children could wade and swim, and golfers could putt.

At about this time, U.S. senior citizens began to build up their savings and retirement incomes, aided by programs like Social Security (created in 1935). They became new migrants, seeking sun and dry weather, away from the wintry climates of New England and the Midwest.

Also, although many criminal elements had come to Las Vegas in the first decades of legalized gambling, pressure for reforms increased in the 1960s. As a result, many casinos were bought by new, cautious owners who tried to sell Las Vegas to families, as a safe and clean place to visit . . . or live.

PERMANENT RESIDENTS

By 1980, Las Vegas had more than 450,000 residents. By 1990, it had grown to almost 740,000. Las Vegas had become a place to live, not merely a place to visit. Why? The very isolation that made Las Vegas unappealing during the 1800s now became an attraction. Many newcomers arrived from crowded areas like Los Angeles, seeking fewer traffic jams and less smog. Land in Las Vegas was available—remember all that desert? Companies seeking western locations could afford to buy a lot of land for expansion. New jobs became available. Homeowners found cheaper houses than the ones they sold when they moved to Las Vegas; and home-builders had open land for new subdivisions. Homes were especially important incentives for families, as were the city's good, new schools.

So Las Vegas boomed. But it could not last for long. Each of the decisions that Las Vegas made along the way brought costs. A bad reputation at times concerning organized crime, is one example. Now Las Vegas faces new problems. How can it continue to supply enough water to keep so many yards and golf courses green? How can it deal with car emissions causing air pollution? How can it provide enough jobs for all the newcomers?

Will Las Vegas succeed in the continuing competition to attract businesses, money, and migrants? Look at its history and make a prediction. What natural assets and drawbacks did it have? How did those change as times changed?

QUESTIONS FOR DISCUSSION

1. What steps did Nevadans take to attract temporary migrants?

2. How did people in Las Vegas make the city more appealing to permanent residents?

Name____________________

ACTIVITY 2
LAS VEGAS CLUES

Read the following statements. Decide which statements describe circumstances which influenced the growth of Las Vegas as a metropolitan area.

If the statement describes something that served as a positive incentive, place an I (for incentive) in the blank in front of the sentence.

If the statement describes something that served as a negative influence, place a D (for disincentive) in the blank in front of the sentence.

If the statement describes something that has no obvious influence on the growth of Las Vegas, place NA (for not applicable) in the blank in front of the sentence.

____1. Las Vegas has a dry, dusty climate with very hot days during the summer and almost no rainfall.

____2. The soil in the Las Vegas area is not very fertile for raising farm crops like wheat, corn, and oats.

____3. Homes in Las Vegas cost one–half of what similar homes would cost in Los Angeles and San Francisco.

____4. Most Americans like to gamble and most make bets on sporting events.

____5. Legalized gambling has become more common in the past few years, but gambling still is illegal in most areas of Canada, Mexico, and the United States.

____6. The air pollution levels in Las Vegas are very low compared to levels in other large U.S. cities.

____7. Taxes in Nevada are lower than those in many other states in the United States.

____8. Utility costs (water and electricity) are lower in Las Vegas than in most other cities.

____9. The mountains which surround Las Vegas are badly eroded and reveal the underlying rock formations.

___10. The Las Vegas school district is quickly expanding the number of its schools and teachers to serve the children of the area.

___11. Well–maintained highways make it convenient to drive to and around the Las Vegas area.

___12. Hoover Dam provides water and electricity to Las Vegas without using nonrenewable energy sources (coal and oil).

___13. Organized crime leaders helped build the large casinos in Las Vegas.

___14. Los Angeles has developed a serious air pollution problem and heavy traffic congestion.

___15. Many retirees moving to Las Vegas are coming from California to live in the recently built retirement facilities.

___16. The cost of air conditioning a home in Las Vegas is less than it would be in most U.S. cities.

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ENTREPRENEURSHIP CASE STUDY: CHUCK BERRY

INTRODUCTION

History In the mid–1950s, rock music made its debut in the United States. Chuck Berry (1926–) and other innovative entertainers taught America to enjoy a new sort of music. It was music written, performed, and bought by young people, and their enthusiasm for it stirred up considerable opposition among their elders. The popularity of rock music has not faded, however, even though its first–generation audience has matured. It continues to be a bulwark of the entertainment industry in the U.S. and abroad.

Mystery Teachers and parents strive to influence the decisions and behavior of young people sometimes with slight success. But Chuck Berry and other rock musicians have wielded enormous influence on young people, and they made it look easy. What's the explanation?

Economic History Successful economies offer a variety of incentives that encourage people to introduce new products and services. When a product or service is what consumers want most, trade flourishes, driven by consumers' demand. In this light, rock musicians were entrepreneurs whose music tapped a deep reservoir of consumer demand.

CONCEPTS

Entrepreneur
Innovation
Incentive

OBJECTIVES

♦ Identify the contributions of Chuck Berry in the U.S. entertainment industry.

♦ Explain innovations in the entertainment industry illustrated by Chuck Berry's music.

♦ Use economic thinking to predict the future of rock and roll.

LESSON DESCRIPTION

This lesson features a class discussion of a case study of an entrepreneur.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency of Visual 1.
One copy for each student of Activity 1.

PROCEDURE

1. Display Visual 1 to the class. Explain that a lyric like "Awopbopaloobop Alopbamboom" disturbed a lot of parents, ministers, and other community leaders when rock and roll arrived on the scene in the mid–1950s.

2. Explain to the class that teachers and parents in the 1950s, like teachers and parents today, strive to influence the decisions and behavior of young people. They sometimes have little success. Chuck Berry and other rock musicians wielded enormous influence on young people's decisions and made it look easy. Why? Invite the class to use economic reasoning to speculate on the possible answers.

3. Explain that Chuck Berry is well known for his contributions to rock and roll and the U.S. music industry. He was a pioneer in the development of a form of music that has influenced people for more than 40 years and is still going strong.

4. Distribute Activity 1 to the class. After the students have completed their reading, *ask:*

A. Why was the baby boom a factor in the success of rock and roll? (The increased population of young people made them a profitable new market for entertainers who could provide them with music they liked.)

B. How was Chuck Berry an innovator? (Berry's lyrics and guitar style were among his principal innovations.)

C. What opposition did rock–and–roll artists and fans overcome? (Many parents, members of the clergy, and people in the media were opposed to rock and roll.)

CLOSURE

Remind the class that rock and roll was an innovation in 1955. Performers continue to make changes in rock music in an effort to seek new audiences and to please old ones. Yet we continue to hear old rock and roll played on golden oldie stations around the country. Using economic reasoning, tell whether you think old rock and roll is here to stay for the next few decades.

(Yes. There is a strong incentive for some radio stations to continue to play this music. Members of the baby boom generation, like previous generations, enjoy listening to the music they grew up with. They will continue to listen to old rock and roll, thus making it profitable for radio stations and other vendors to make the old tunes available.)

VISUAL 1

ON ROCK AND ROLL

The greatest line in rock and roll is "Awopbopaloobop Alopbamboom." Top that if you can!

Wilko Johnson, rock musician

Name________________________

ACTIVITY 1
CHUCK BERRY WEALTH CREATOR

CHUCK BERRY (1926–) IS A SINGER, guitarist, and composer who was an early, influential entrepreneur of rock and roll. Along with several other performers, he paved the way for a tradition of rock and roll that has now lasted for more than 40 years.

This new music was written, performed, and consumed by the young. Pleasing the young offered the promise of financial success. After World War II, there was a "baby boom." Veterans returned home to their families. The prosperity of the 1950s was a welcome change from the years of the Great Depression and the economic constraints imposed by World War II. The number of births exploded. During the 1930s, the U.S. population had increased by 9 million. During the 1940s, it increased by 19 million. During the 1950s, the population increased by 28 million.

THE INNOVATORS OF ROCK AND ROLL

An innovator is someone who takes advantage of new techniques or combines old techniques in new ways to develop a new product that people desire. We commonly think of Henry Ford and the Model T, Steven Jobs and the personal computer, or Ray Kroc and McDonald's as innovators. But innovators can spring up in any business when innovative behavior is rewarded.

In the early 1950s, Les Paul was developing new designs for the electric guitar. Bass, drums, and piano were, of course, familiar instruments. Popular music ranged from jazz to rhythm and blues and country and western. Chuck Berry took elements from these music traditions and recombined them with unexpected lyrics, a new beat, an unmistakable guitar style, and a sizzling performance. Young people loved it.

Many believe that Berry's lyrics were his greatest source of appeal. His phrasing captured in a few, vivid words the images and ideas which young people could see. Here is the first verse from the song entitled "Memphis." Berry is trying to call his six-year-old daughter, but until the last few words listeners are led to think that Berry is trying to reach his lover.

> Long distance information, give me Memphis, Tennessee.
> Help me find a party that tried to get in touch with me.
> She did not leave a number, but I know who placed the call.
> 'Cause my uncle took the message and he wrote it on the wall.

Berry's lyrics contrasted sharply with the songs of the late 1940s and early 1950s, which tended to feature sentimental tunes like "How Much Is That Doggie in the Window?" and "Ring Telephone Ring." Here's an example:

> How much is that doggie in the window? (Bark! Bark!)
> The one with the waggly tail.
> How much is that doggie in the window? (Bark! Bark!)
> I do hope that doggie's for sale.

Similarly, Berry's guitar style was unique and widely imitated. No rock and roll guitar player, young or old, has ever learned how to play guitar without learning the lead guitar licks in Berry's "Johnny B. Goode."

Berry's records sold well and his concerts sold out. His first big hit was "Maybellene," in 1955. The hits kept coming, including "School Days," "Sweet Little Sixteen," "Johnny B. Goode," "Roll Over Beethoven," "Rock and Roll Music," "Carol," "Too Much Monkey Business," "Memphis," "Nadine," and "No Particular Place to Go." His style has influenced many musicians, including such rock and roll giants as the Beatles and the Rolling Stones. Indeed, it is difficult to name a rock and roll artist who was not influenced by Chuck Berry.

PERSISTENCE

An important characteristic of an entrepreneur is persistence in overcoming obstacles. The opposition to rock and roll ran deep. Parents didn't understand it. Ministers preached against it. Radio stations wouldn't play it. Television shows didn't show it—at least not below the waist. But young people loved it. And they were willing to buy the records, listen to the radio stations, go to the dances, watch the television programs, and attend the concerts of those people in the entertainment business who were willing to sell it to them.

While Berry's contribution was unique, he was not, of course, the only artist who fought for the acceptance of this new music. Other rock and roll innovators included Elvis Presley ("Love Me Tender"), Brenda Lee ("I'm Sorry"), Roy Orbison ("Only the Lonely"), Little Richard ("Good Golly, Miss Molly"), Frankie Lymon ("Why Do Fools Fall in Love?"), and Jerry Lee Lewis ("Whole Lotta Shakin' Goin' On"). Pioneering groups included the Everly Brothers ("Wake Up Little Susie"), Bill Haley and the Comets ("Rock Around the Clock"), Dion and the Belmonts ("Run Around Sue"), and Buddy Holly and the Crickets ("That'll Be the Day").

HERE TO STAY?

Rock and roll has undergone many changes. Its ability to change to attract new performers and new audiences is one of its strengths. Yet, in every city you visit, there is a golden oldies radio station still on the air. The recordings of people like Fats Domino ("Blueberry Hill") are still played. These old recordings seem to stay around forever. Or will they? Use economic reasoning to predict whether old rock and roll tunes will stay around for the next few decades.

QUESTIONS FOR DISCUSSION

1. Why was the baby boom a factor in the success of rock and roll?

2. How was Chuck Berry an innovator?

3. What opposition did rock-and-roll artists and fans overcome?

4. Is old rock and roll here to stay for the next few decades?

SAMPLE TEST ITEMS

LESSON 1

1. During World War II, the U.S. economy was marked by

A. Fighting the remaining effects of the Great Depression.
✓B. Near total devotion of resources to the war effort.
C. High levels of unemployment.
D. Strikes and labor unrest.

2. The economy renewed its growth after World War II because of

✓A. High aggregate demand.
B. High unemployment.
C. Low aggregate demand.
D. Low unemployment.

LESSON 2

1. Which of the following was *NOT* an incentive that encouraged people to move to Las Vegas in the 1980s?

A. It was less crowded than major cities like Los Angeles.
✓B. It had a 4 percent sales tax.
C. It offered cheaper housing than many major cities.
D. It had less air pollution than many major cities.

2. When people choose to migrate, they must pay costs. For each of the "historical migrants" described below, list at least two costs each would have paid.

A. A Russian moving to New York in 1890.
B. A Korean moving to Seattle in 1970.
C. A Virginian moving to Minneapolis in 1990.
D. You, moving to a town 200 miles from where you live now.

Answers: for (A), students might list the travel costs, lack of future contact with old friends and family, having to learn a new language, etc.; (B) similar to A, but could include some mention of facing racial discrimination or conflict; (C) similar to A and B, but no major difference in language/culture—might note loss of warmer weather, loss of access to ocean, and so on; (D) may be the most specific answers of all—loss of specific friends, clubs, recreational areas, house, and so on.

3. When people choose to migrate, they are often responding to incentives. For each of the people listed in Question 2, list at least two incentives each might have had to migrate.

Answers: for (A) and (B), answers will probably include better jobs, better income, better housing, better educational opportunities, more freedom of choice, and so on; for (C), answers will probably include better job, better income, closer to family or friends, to attend a college, to try something new, and so on; (D) students may have problems identifying incentives for a migration of their own—they might focus on family opportunities, on the chance to meet new friends, attend a new school, be closer to a favorite recreational area, and so on.

4. The U.S. economy has been influenced by people moving from region to region during different historical eras. Which of the following examples is a situation where people moved in response to a positive incentive?

A. Native Americans are moved to reservations.
B. African Americans are brought as slaves to the South.
C. Japanese Americans are moved from the West Coast to camps farther inland during World War II.
✓ D. Settlers move to South Dakota to obtain farmland under the Homestead Act.

5. It is a mystery why people move to locations that seem unpleasant and continue to live there for many years. For example, Las Vegas has legalized gambling and prostitution, yet many people who are opposed to both activities choose to live there. South Dakota and Nebraska are windy, lonely prairie lands with extreme periods of hot and cold weather, yet many people who probably liked more temperate climates chose to live on the prairie. Large cities are noisy and expensive, yet many people who might enjoy small town life choose to live in large cities. Use one of more the *HDG* principles to explain this mysterious behavior.

Possible answer: Students should describe the choices as *economizing behavior*. The combination of costs and benefits must have meant that people expected to have benefits from the move which significantly exceed the costs to cause them to move

LESSON 3

1. In an economic sense, Chuck Berry can be considered a(n)

✓A. Innovator.
B. Leading indicator.
C. Reactor.
D. Discount seller.

2. One reason for Chuck Berry's success is that he appealed to people representing

✓A. Baby boomers
B. Postdepression New Dealers.
C. Parents and teachers.
D. Democrats.

THE CHANGING U.S. ECONOMY

UNIT 9 EXAMINES challenges facing the U.S. economy since 1960. Its lessons address broad issues relating to the changing work force, the federal deficit, and international trade.

Lesson 1 uses economic reasoning to examine the changing role of women in the U.S. economy, with special reference to the role of incentives and disincentives.

Lesson 2 focuses on the problem of the federal deficit. Deficit spending has been a continuing pattern in the United States since the 1960s. By the 1990s, the federal deficit had reached record levels. This lesson uses assumptions from Public Choice Theory to explain why politicians often favor deficit spending. Lesson 3 uses a simulation activity to demonstrate ways in which international trade has benefited the U.S. economy since World War II.

Lesson 4 focuses on how American pop culture, as represented by Michael Jackson and the Jeep, competes successfully in the international entertainment marketplace.

Lesson 5 examines protectionism in the U.S. economy, using the assumptions of Public Choice Theory to explain why some members of Congress continue to favor protectionist policies.

WOMEN IN THE U.S. WORK FORCE: FROM ROSIE THE RIVETER TO ROSIE THE LOAN OFFICER

INTRODUCTION

History During World War II many U.S. women worked in factories at blue collar jobs. After the war most women left those jobs as men reentered the civilian work force. A popular domestic ideal emerged, one portrayed, for example, on the Donna Reed television show: husbands would work while wives stayed home, looking after domestic matters. After 1960, however, this ideal and its real-life counterparts began to change. Women entered the paid labor force again, in large numbers. By 1990, 52 percent of American adult women under age 65 were at work outside the home. Early in the 1960–1990 time period most women worked in traditional "pink collar" occupations as teachers, secretaries, or nurses, and they earned low average incomes, compared to men's incomes. Later, women moved increasingly into jobs traditionally held by men, and their income as a percent of men's average income improved. As of 1993, however, women on average continue to earn less than men.

Mystery If traditional barriers to their increased participation in the work force have eroded, why do women on average still earn less money than men?

Economic History Women's real wages rose dramatically from 1960–1990. This increase in real wages raised the opportunity cost of not working. In staying home, Donna Reed's television character didn't forgo much income; she would have forgone much more after 1960. Men's real wages, moreover, held roughly constant between 1960–1990, and for married couples that fact created an additional incentive for wives to take jobs. Despite this development, however, women's average incomes have not yet caught up with men's. While there is disagreement about the explanation of the income disparity between men and women, economic reasoning would suggest that work and family preferences are among the important reasons. Economic reasoning also stresses that changes in the rules of the economic system—such as enforcement of the Civil Rights Act of 1964—provide incentives for employers to avoid gender discrimination. If desired changes are slow in coming, there may be a need for stronger incentives or disincentives.

CONCEPTS

Incentives
Disincentives
Real Wage

OBJECTIVES

- Distinguish between incentives and disincentives as they might influence a person's decision to join the work force.
- Assess the influence of changing real wages on individual choices to seek jobs.
- Analyze shifts in public attitudes toward appropriate occupations for men and women.

LESSON DESCRIPTION

Students will obtain survey data about public opinion on occupations for men and women, and compare their data to the results of a poll taken in 1950. To explain the change in attitudes and the concomitant increase in the number of women in the work force, they will study a short case study of women's work history and then complete an activity on work incentives and another one on changes in real wages for men and women.

TIME REQUIRED

- One to two class periods

MATERIALS

One transparency each of Visuals 1 and 2.

One copy for each student of Activities 1, 2, 3, and 4.

PROCEDURE

1. Explain that in this lesson the students will examine changes in women's participation in the

paid work force since World War II. Distribute Activity 1 and ask the students to complete the poll on occupations. Discuss their responses. Display Visuals 1 and 2 and compare the students' responses to responses from a poll given to a sample of American men and women in 1950.

(***Note:*** As an extended activity, students could poll other students in the high school, and parents and grandparents, to see whether generational differences exist.)

2. Explain that opinions about appropriate jobs for men and women changed dramatically in the years between 1960 and 1990, as women entered the paid work force in larger numbers. What caused women to trade aprons for briefcases during this time period?

3. Ask students to read Activity 2. When they have completed their readings, *ask:*

A. Why have women tended to work in lower-paying jobs (receptionist versus skilled mechanical jobs) than those taken by men? (Work preferences, family preferences, indirect discrimination, direct discrimination, indirect pay to women.)

B. Ask students to provide examples that seem to support these five explanations. (Accept a variety of answers.)

C. Ask students to provide examples that contradict these five explanations. For example,

([1] Women's traditional work is often uncomfortable, dirty, and unsafe. Women who work the graveyard shift at convenience stores are in considerable danger. Nurses must constantly confront unpleasant circumstances.)

([2] Many women choose not to have children until they have spent 10 or more years on the job. Others may miss only a brief time from work when they have children.)

([3] Female students can usually sign up for math and science courses even if a counselor doesn't advise them to. Women can pursue careers as engineers, backhoe operators, and so on. Society often criticizes individual choices [to drink, smoke, paint one's house lime green, wear a ring in one's nose], but such criticism doesn't stop individuals from choosing to do those activities.)

([4] It is illegal to discriminate directly against women.

([5] If a couple divorces or the husband dies, the woman's indirect income [her husband's higher pay] does not continue. The wife may not have access to the extra pay, even if the couple remains married.)

4. To help explain why women entered the work force in large numbers, distribute Activity 3 to the class. Ask the students to use their *Handy Dandy Guide* to answer the questions.

5. Discuss the students' responses to Activity 3.

Answers to Activity 3

1. D, 2. I, 3. I, 4. I, 5. I, 6. D, 7. I, 8. D, 9. I, 10. D

6. Distribute Activity 4 and ask students to complete it.

A. In this example, how did the average real wage for U.S. women change from 1960 to 1990? (Women's real hourly wages increased from $5 to $7.)

B. In this example, what happened to the average real wage for men from 1960–1990? (Men's real wages remained constant.)

C. Whose average real wages (men's or women's) were greater from 1960 to 1990? (Men's real wages were greater than women's.)

D. Did women have an incentive to join the work force even though their average real wage was less than that of men? (Yes. Women's real wages increased, so the opportunity cost of remaining out of the work force increased.)

E. In families with a husband and wife, would there be an incentive for the wife to join the work force? (Yes. The man's average real wage had stagnated, so the family could gain increased income if the wife joined the work force.)

F. What conclusions can you draw from this example about work incentives?
  (1. Increasing real wages will encourage people—in this example, women—to find salaried work outside the home even if they are paid less than other workers.)

  (2. When real wages are not changing for men, married women will tend to take jobs in order to increase family income.)

G. Does this information mean women workers are happy to earn average wages lower than men workers? (No. Wage differences are a source of discontent, but women tend to make work decisions based on their best available alternatives.)

7. Underscore the point that real wage changes serve as an important incentive to work. Economists tend to explain women's work force participation as directly related to this change in real wages. It is not the only cause, but it is an extremely important cause for the recent growth in the number of women in the work force.

CLOSURE

Ask students to consider the following situation: In the future imagine that U.S. families choose to increase the number of children they will raise. Today families in the United States have an average of 1.8 children. Assume that in the future the average changes to 4 children per family. Also assume that, in this same period, men's real wages decline while women's real wages double, and child care costs rise dramatically. How might the work force in America change? (Men will tend to work fewer hours and take over more responsibility for child care; women will tend to work longer hours.)

What if the average family size increases, men's wages tend to rise, but women's wages do not rise and child care facilities become more expensive? How might the work force in American change? (Women's participation in the work force might decline, while men would work longer hours.)

VISUAL 1

OPINIONS ABOUT GENDER AND OCCUPATIONS: GALLUP POLL RESULTS, 1950

JULY 12, 1950 – PROFESSIONS RECOMMENDED FOR YOUNG MEN

Suppose a young man came to you and asked your advice about taking up a profession. Assuming that he was qualified to enter all of these professions, which one of them would you recommend first?

Doctor of medicine	29%
Engineer, builder	16%
Business executive	8%
Clergyman	8%
Lawyer	8%
Government worker	6%
Professor, teacher	5%
Banker	4%
Dentist	4%
Veterinarian	3%
None, don't know	9%

Source: George H. Gallup, *The Gallup Poll: Public Opinion, 1935–1971*, vol. 2 (New York: Random House, 1972). American Institute of Public Opinion.

VISUAL 2

OPINIONS ABOUT GENDER AND OCCUPATIONS: (continued)

JULY 15, 1950 – PROFESSIONS RECOMMENDED FOR YOUNG WOMEN

Suppose a young girl came to you and asked your advice about taking up a profession. Assuming that she was qualified to enter all of these professions, which one of them would you recommend first?

Nurse	33%	Actress	3%
Teacher	15%	Journalist	2%
Secretary	8%	Musician	2%
Social service worker	8%	Model	2%
Dietician	7%	Librarian	2%
Dressmaker	4%	Medical, dental technician	1%
Beautician	4%	Others	2%
Airline stewardess	3%	Don't know	4%

The recommendations of men on this subject were nearly identical to those of women.

Source: George H. Gallup, *The Gallup Poll: Public Opinion, 1935–1971*, vol. 2 (New York: Random House, 1972). American Institute of Public Opinion.

Name______________________

ACTIVITY 1
STUDENT POLL ON OCCUPATIONS

Suppose a young man and young woman came to you and asked your advice about taking up a profession. Assuming that he or she is qualified to enter each of these professions, which one of them would you first recommend for the man, and which first for the woman? Place a check next to each.

PROFESSION	MAN	WOMAN
Doctor of Medicine		
Nurse		
Engineer		
Teacher		
Business executive		
Social worker		
Lawyer		
Secretary		
Professor		
Dietician		
Medical/Dental technician		
Model		
Banker		
Journalist		
Dentist		
Musician		
Airline steward		
Veterinarian		
Beautician		
Dressmaker		
Actor		

Name____________________

ACTIVITY 2

WHY DID ROSIE THE RIVETER BECOME ROSIE THE LOAN OFFICER?

IN 1941, JAPANESE BOMBERS ATTACKED Pearl Harbor, and the United States entered World War II. Millions of American men enlisted in or were drafted into military service. The nation geared up its factories for production of war supplies so the United States and its allies would have all the equipment needed to win the war.

Because many Americans entered the armed services (about 16 million American men and women served in the military during World War II) and because of the need for tremendous productivity in war factories, the nation needed to find workers. Who would replace those workers who entered the service? Who would provide the labor needed to win the war?

The country turned to two groups previously not well represented in the manufacturing work force: women and minorities. Between five and six million women took jobs during the war years. Many were recruited by the War Manpower Commission, a federal agency. Others moved to factory jobs from previous employment as maids, cooks, or clerks. Popular songs and posters portrayed "Rosie the Riveter" as a patriot, a woman whose work supported the war effort and "protected" soldiers and sailors by making certain that they would always have the guns, ammunition, planes, ships, and other supplies they needed.

Women workers made up about one-third of the total work force by 1945. When the war ended in that year and the armed services discharged many millions of people, about 20 percent of the women who had worked during World War II left the work force. Others left their wartime jobs but moved to other paid positions, often in offices, restaurants, and stores. Relatively few kept their jobs as welders, mechanics, shipworkers, or machinists.

The decline in the number of working women did not last long. By the early 1950s, women again constituted one-third of the total work force. The percentage kept rising—to 40 percent by the 1970s, and to 50 percent by 1990. But women after 1950 did not, by and large, return to the manual, skill-based jobs that so many held during World War II. Most took work in the expanding service industries (health care, education), retail industries, and business (secretaries, clerical staff). Rosie the Riveter became Rosie the Receptionist or Rosie the Restaurant Worker or Rosie the Respiratory Therapist.

Does it matter that this change occurred? Most women workers before World War II had filled service, retail, or office jobs. Most filled similar jobs again after World War II. Should we dismiss the World War II experience as a strange exception to the norm?

Historians have not stopped looking at Rosie the Riveter. One reason for their continuing interest is the fact that wages in skill-based, manual work are often higher than wages paid to secretaries and salesclerks. Women earned about two-thirds of what men earned, on average, during World War II—the highest proportion attained by women up to that time, and a level that women today are just managing to match.

ALTERNATIVE EXPLANATIONS

Economists and historians alike wonder why women on average do not earn as much as men earn. What do you think? Why would Rosie the Riveter become Rosie the Receptionist if a smaller paycheck is the result?

Several explanations have been suggested. Read the following explanations and use reasoning based on your *Handy Dandy Guide* to help you decide which explanations make the most sense.

1. Women earn less than men because they choose jobs that pay less. They choose such jobs (receptionists, teachers, salesclerks, nurses, for example) because the environment and duties of such work are desirable to them. Women want to be in clean, comfortable environments and they like working directly with people. Women do not like to work outside in the cold or wet, do not like to get dirty, do not like machines or tools, and do not like dangerous work. We call this explanation *female work preferences*.

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2. Women would like to work in manual, skill–based jobs that pay well, or in other jobs traditionally held by men (engineers, surgeons, business executives), but they recognize that such careers demand lengthy training, long hours, and long–term commitment. Because most women plan to take time away from their jobs to bear children and raise them, they choose not to enter such careers. We call this explanation *female family preferences*.

3. Women would like to work in jobs traditionally held by men, but, except under extraordinary circumstances like those of World War II, society tends not to support a woman's choice to pursue such work. Society believes that the highest pay should go to married men, who have families to support. Society may also doubt that women can do well in such careers. Thus, school counselors are less likely to recommend science and math courses to female students, employers are less likely to think about women as engineers or backhoe operators, and women end up in traditionally female occupations. We can call this explanation *indirect discrimination*.

4. Employers deliberately choose not to hire women for jobs traditionally held by men. Many employers choose not to hire women even when it might benefit them to do so. Such choices, on the part of the employer, may hurt the employer's profits, but since so many employers share a distrust in women's abilities, the loss is fairly even for all employers. We can call this explanation *direct discrimination*.

5. Married men whose wives do not work outside the home, or work outside the home at relatively undemanding jobs, have many benefits (food provided for them, clothes purchased and laundered, appointments made, children cared for) which, in effect, they "borrow" from their wives, and the higher income such men earn reflects the advantage they gain by this "borrowing." The wives also "lend" their work to their husbands, who then turn the loan into profit: the men can work longer hours, concentrate on their jobs, seek extra education, and so on. The wives earn from their loan or "investment" because their husbands' incomes rise. Such women do not earn as much as their husbands do (since they cannot take demanding jobs without eliminating the "assets" that they provide at home), but they "earn" part of their husbands' extra pay. We can call this explanation *indirect pay to women*.

QUESTIONS FOR DISCUSSION

1. Think of one example that supports each of these five explanations for women's and men's wage differences.

2. Think of one example which contradicts each of these five explanations for women's and men's wage differences.

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ACTIVITY 3
INCENTIVES AND DISINCENTIVES

Read the following statements and place an "I" on the space beside each statement describing an incentive which encourages women to work or a "D" beside each statement representing a disincentive which discourages women from seeking a job.

____1. Women tend to have major responsibility for child care in U.S. families.

____2. The average number of children per U.S. family declined from 3 to 1.8, between 1950–1990.

____3. The majority of jobs in the United States during 1960–1990 are white collar jobs which require training, education, and direct service to customers.

____4. Women entered college and business schools in large numbers between 1960–1990, acquiring valuable business skills.

____5. Divorces increased dramatically between 1960–1990, and many divorced women raise children without the financial help of a spouse.

____6. Day care services have been expensive and in short supply during 1960–1990.

____7. The Civil Rights Law of 1964 prohibits job discrimination on the basis of gender.

____8. Women entering jobs typically held by men (miners, police, construction workers, for example) are frequently subjected to sexual harassment.

____9. Feminist writers and political activists effectively portray the working woman as a successful person in their books, seminars, and television appearances.

____10. Public polls indicate that a majority of women view family responsibilities as more important than job responsibilities.

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Name________________________

ACTIVITY 4
REAL WAGES AND WORK DECISIONS

ATTEMPTING TO EXPLAIN WHY WOMEN joined the work force in increasing numbers between 1960–1990 is a difficult task. This activity concentrates on the impact of wages on women's decisions. The information below involves a hypothetical example, but the situation it describes is very similar to what happened in the United States from 1960 to 1990. Your task is to look at the information in Table 1 and use it to answer the questions that follow.

Please note that wages change every year in an economy for many reasons. One reason is adjustments to inflation. In this example, we use the *real wage*, which is a measure of wages adjusted for inflation. The real wage measures the purchasing power of a salary. For example, if you are making $5 per hour and your employer increases your salary to $10 per hour, you are apparently able to purchase more. But if prices also double, then it takes $10 to buy what $5 used to buy. Therefore, your real wage (money/wage divided by the cost of living) has not changed because prices increased as fast as your wages did. In this example we will always consider changes in real wages so that we are not distracted by price changes.

AVERAGE REAL WAGES FOR MEN AND WOMEN

Year	1960	1970	1980	1990
Total Women	100	100	100	100
Total Women Working	30	35	40	52
Average Real Wage	$5 per hr.	$6 per hr.	$6.50 per hr.	$7 per hr.
Total Men	100	100	100	100
Total Men Working	80	80	80	80
Average Real Wage	$10 per hr.	$10 per hr.	$10 per hr.	$10 per hr.

QUESTIONS FOR DISCUSSION

Use the information above and the Handy Dandy Guide to answer the following questions.

1. In this example, how did the average real wage for women change from 1960 to 1990?
2. In this example, what happened to the average real wage for men from 1960–1990?
3. Whose average real wages (men's or women's) were greatest from 1960 to 1990?
4. Did women have an incentive to join the work force even though their average real wage was less than that of men?
5. In families with a husband and wife, would there be an incentive for the wife to join the work force?
6. What conclusions can you draw from this example about work incentives?
7. Does this information mean women workers are happy to earn average wages lower than those earned by men?

WHY DOES THE FEDERAL GOVERNMENT OVERSPEND ITS BUDGET?

INTRODUCTION

History Throughout its history the U.S. government has for the most part balanced its budget, except during times of war and the Great Depression. Since the 1960s, however, the federal government has engaged consistently in deficit spending. Early in the 1990s the deficits reached record levels, and no signs point clearly to a reversal of the trend. These large deficits, incurred in times of relative peace and prosperity, cause many Americans to worry.

Mystery Since sustained deficit spending is generally agreed to be harmful, why do the deficits continue?

Economic History The consistent pattern of deficit spending since the 1960s reflects an unspoken consensus among voters and politicians. Individuals object to the deficits, but collectively the nation has accepted them. In accepting them, voters and politicians exemplify economizing behavior. Voters gain benefits from government programs some of which are paid for with borrowed money. Politicians gain the support of voters who benefit from these programs. When deficits drive up interest rates, people who hold savings gain in particular. By comparison with the direct, immediate benefits conferred by deficits, the costs in lower productivity and future output appear remote and indefinite.

CONCEPTS

National Debt
Deficit
Incentives

OBJECTIVES

♦ Define "federal budget deficit" and observe the pattern of increasing deficit levels since 1960.

♦ Recognize the influence of incentives on the choices of voters and politicians.

♦ Predict the level of support for different proposals to reduce federal deficits using their knowledge of the role of incentives.

LESSON DESCRIPTION

The teacher will present a definition of "federal budget deficits" and provide a historical overview of deficits since 1960. Students will use the HDG principles to predict levels of support for different proposals to reduce the deficit.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1, 2, and 3.

PROCEDURE

1. Ask students if they know what a billion dollars could buy? Present some examples.

> If the school district budget is $100 million, then a billion dollars could fund the school district for 10 years.
>
> If you earned $10 million a year, it would take you 100 years to earn a total of a billion dollars.
>
> If you spent just over $1900 per minute, 24 hours per day, for 365 days, you would spend $1 billion.
>
> One billion dollars is a lot of money! But it is only 7/100 of 1 percent (.07%) of the total money spent by the federal government in 1992.

2. Tell the students that even with all this revenue, the U.S. government *overspent* its budget by $348 billion in 1991.

3. Show students Visual 1. Explain the difference between a budget deficit and the national debt.

A *budget deficit* is the difference between what the government spends in one year and its revenue in that same year when the expenditures are greater than the revenue. (In 1992 the federal budget deficit was estimated to be $400 billion.)

The *national debt* is a total of all the unpaid deficits incurred by the federal government. (In 1992 the national debt was about $4 trillion.)

4. Ask students to make a generalization about the pattern of federal deficits illustrated in Visual 1. (The average deficit is larger in each decade.)

5. Show students Visual 2. Explain that using supply and demand analysis applied to the market for loanable funds helps us anticipate the consequences of the deficits. The U.S. government must borrow money to cover the deficit. It borrows this money from people who save (spend less than they earn). Currently, the U.S. government borrows three–fourths of all the loanable funds available to borrowers in the United States.

Visual 2 illustrates how government borrowing can influence interest rates and private borrowing. Line D_{BD348} is the demand for loanable funds when the government is borrowing $348 billion. D_{BB} is the demand for loanable funds when the government is not borrowing (balanced budget) and only private individuals and firms are borrowing. S is the amount of savings available to borrow at different interest rates.

6. Discuss the following questions:

A. As a result of government borrowing, what happens to the interest rate and the total funds borrowed? (Interest rates are higher [10% vs. 8%]. Total borrowing is greater [900B vs. 800B].)

B. What are the results of large government deficits? (1. The demand for loanable funds increases [shift in the demand curve from D_{BB} to D_{BD348}.] 2. Borrowing by private firms and individuals declines [Point A to Point B 800B to 600B; this is called the "crowding out" effect]. 3. Interest rates are higher than they would be if the government were not borrowing loanable funds.)

C. Who gains and who loses as a result of budget deficits? (Savers who enjoy higher interest rates than would otherwise be the case, and people gain who receive government expenditures which would not exist under a balanced budget. Losers include borrowers who pay higher interest rates and the entire economy if investment declines and economic growth slows. Decreases in investment harm the economy because investment is required to replace old equipment and buildings and to create new and more efficient capital equipment and buildings.)

7. Display Visual 3 and ask the students to bear in mind the following generalization about voters and politicians:

Voters tend to favor political actions that benefit them directly and to oppose actions that directly increase their costs.

Politicians tend to favor political actions that help them satisfy voters and increase their opportunity to win elections.

8. Ask students to judge which proposals will tend to be supported by voters and which proposals will tend to be opposed by voters. (1. Oppose, 2. Oppose, 3. Oppose, 4. Oppose, 5. Oppose, 6. Support, 7. Support, 8. Oppose.)

CLOSURE

Ask students to write a sentence or two, consistent with economic reasoning, which explains why the federal deficit tends to be ignored by voters and politicians. (Balancing the federal budget would require voters to bear increased direct costs [higher taxes, fewer government services] in order to receive very indirect benefits [lower interest rates, lower consumer costs, greater economic growth]. Therefore, voters support a balanced budget as a general goal but tend to oppose specific changes necessary to meet that goal.)

Several political groups advocate a constitutional amendment which would require Congress to balance the federal budget each year. Use economic reasoning to predict how passage of this amendment might change the behavior of politicians in Congress. (The passage of this amendment would probably change the behavior of politicians. The rules would have been changed and, if they were also enforced, deficit spending would no longer be an alternative for members of Congress. They would have to find other ways to convince voters to support their actions.)

Note to the Teacher: Including this activity does not mean that the authors endorse a balanced budget amendment to the constitution. The activity is simply an example to show that as rules and incentives change, changes in behavior are possible.

VISUAL 1

U.S. GOVERNMENT DEFICITS AND DEBT

DEFICIT: A budget deficit is the difference between what the U.S. government spends in one year and its revenue in that same year when the expenditures are greater than the revenue.

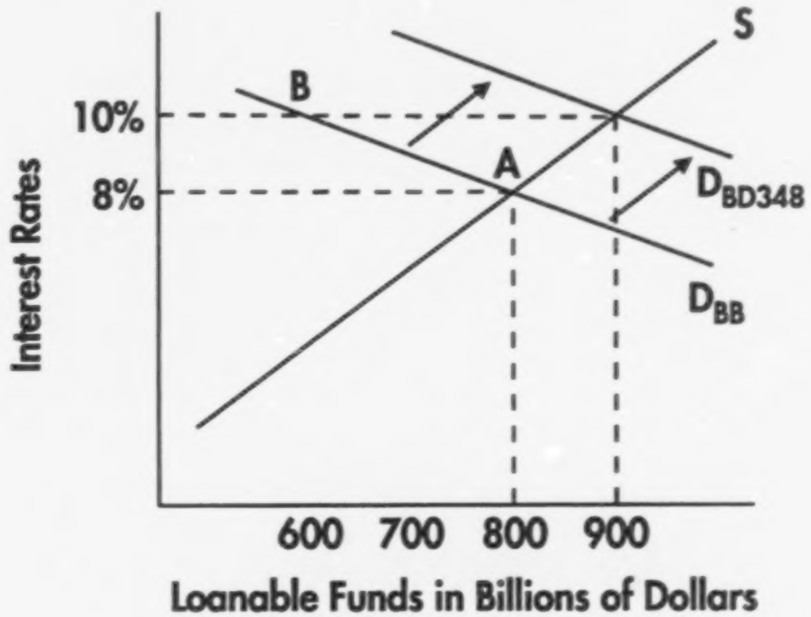
NATIONAL DEBT: The national debt is a total of all the unpaid deficits incurred by the federal government. (In 1992 the national debt was about $4 trillion.)

U.S. DEFICIT HISTORY

Decade Average	*Deficit* (in billions of dollars)
1960s	$6.62
1970s	$35.3
1980s	$169.0
1990–91	$287.5

VISUAL 2
CONSEQUENCES OF DEFICITS

FEDERAL GOVERNMENT BORROWING: The sources of federal government funds enable it to spend more than it receives in tax revenue.



The consequence of government deficits is the change in demand for loanable funds from D_{BB} (balanced budget, no government borrowing) to D_{BD348} (federal budget deficit of $348 billion); interest rates rise from 8% to 10%, total borrowed funds increase from $800B to $900B, and private borrowing (by individuals and firms) falls from $800B to $600B. (Point B above)

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VISUAL 3
PUBLIC CHOICE THEORY

Voters tend to favor political actions which benefit them directly and to oppose actions which directly increase their costs. Politicians tend to favor political actions which help them satisfy voters and increase their opportunity to win elections.

Which of the following proposals would tend to be supported (S) by voters and which would tend to be opposed (O)?

BUDGET DEFICIT REDUCTION PROPOSALS

____1. Reduce federal spending on elementary schools by $10 billion.
____2. Reduce federal spending on highways by $20 billion.
____3. Increase income taxes by $50 billion.
____4. Eliminate income tax deductions to raise $15 billion.
____5. Increase the fees charged to visitors to the national parks, monuments, and forests, to raise $8 billion.
____6. Reduce foreign aid to developing nations by $30 billion.
____7. Reduce purchases of military equipment by $50 billion.
____8. Pass a national sales tax, to raise $150 billion.

TRADING AROUND THE WORLD

INTRODUCTION

History World War II disrupted trade severely, as did the Cold War. But Japan and Germany recovered quickly after World War II, and countries once locked into the Soviet Union's satellite system now are beginning to take part in trade in European and world markets. Overall, world trade has expanded rapidly since 1948. The United States has participated in the world trade boom, experiencing in particular a great increase in trade during the 1980s. Many Americans, however, continue to view world trade with suspicion.

Mystery The arguments for world trade sound good in theory. But when workers in American plants are being laid off and plants are being closed because of foreign competition, aren't America's interests served best by protecting its domestic enterprises?

Economic History World trade, conducted by individuals who are citizens of different countries, is not a zero–sum game in which one trading partner loses and becomes poor while the other one gains and becomes rich. Increases in voluntary trade help all economies to produce more goods and services at lower costs.

CONCEPTS

Voluntary Trade
Utility

OBJECTIVES

♦ Analyze the effect of voluntary trade on self–reported measures of personal satisfaction.

♦ Use principles of economic reasoning to explain motives and outcomes in a simulated trade activity.

♦ Evaluate the effects of the size of a market on trade.

LESSON DESCRIPTION

Students begin by evaluating the personal satisfaction they attach to a small gift presented to them by the teacher. Then they participate in a trade simulation which has two different rounds. After each round they again evaluate the personal satisfaction they attach to the item they possess as a result of trades they have made. After the simulation they compare their behavior to trade among citizens of different countries.

TIME REQUIRED

♦ One class period

MATERIALS

One small, inexpensive gift item for each student (juice, soap, popcorn, and so on) wrapped or in a brown bag. Code the bags according to the number of groups. Strive to provide each group with a variety of items.

One teacher's aide or student helper.

PROCEDURE

1. Explain to students that the Great Depression and World War II interrupted world trade for nearly two decades. After World War II, trade began to grow dramatically. During this class period we will attempt to explain why world trade grew after the war, and how trade changed our lives.

2. Hand out one small gift item per student. The item should be wrapped or placed in a brown bag. It should have a number code (1–6) on it, and each student should find and sit with people holding the same number.

3. After the students have opened their gifts, each student should assess how much satisfaction it gives her or him. The satisfaction should be rated on a 1–to–5 scale. One is low, five is high.

4. Ask students to write down their satisfaction score on a piece of paper and turn it in. Ask an aide or student helper to sum the numbers and calculate an average level of satisfaction.

5. Give students 2 or 3 minutes to trade items in their small groups if they choose to do so. No one is required to trade.

6. After the trades, ask students to rate the satisfaction provided by the items they currently hold (1–5). People who traded for a new item

will mark down a new number; people who did not trade should rate their item with the same number they gave it before. Collect the ratings from students; sum them and calculate the average level of satisfaction.

7. Allow students to trade again. This time give them 5 minutes to trade items with anyone in class.

8. After 5 minutes students should return to their original seats, rate their items on the 1–5 scale, and give the information to the aide or student helper. Again, only students who traded should change their rating.

9. Display the results of the utility evaluation.

Example:

No trade		*1st trade*		*2nd trade*	
Total	Av.	Total	Av.	Total	Av.
60	2	90	3	120	4

10. Ask students to explain why the numbers got larger. (People exchanged items they valued less for items they valued more. Trade opportunities improved when it became possible to trade within the whole class.

Note that while the items are still the same as those originally handed out, now they are held by people who value them more highly. Voluntary trade created gains in satisfaction just by moving the items to people who valued them more highly.)

11. Why did each different trading opportunity provide greater satisfaction, both average and total? (Each trading session allowed people to investigate more possible trade choices, allowing greater opportunity to find a more satisfying item.)

12. Was everyone happy with the results of the trades? (Probably not. Some people did not find a trade they wanted to make; others may have made mistakes and traded for an item they didn't want; others may have wanted to trade for an item which someone was unwilling to give up. On average, the group had greater satisfaction, but some individuals may not have benefited. Trade does not guarantee everyone will gain greater satisfaction.)

13. Now posit an assumption—the assumption that people engaged in actual cases of trade would respond to new opportunities just as the students did in this exercise. If that's true, how would the ending of World War II have affected world trade? Why?

(Without the interference of war [compare trading only within small groups to trading within the whole class], it was easier for people to engage in voluntary trade on a larger scale, and in more countries. This trade expanded the amount of production and the number of trading alternatives consumers could choose among to increase their satisfaction.)

CLOSURE

In the early 1990s representatives of the United States, Canadian, and Mexican governments attempted to negotiate free trade acts which would remove most of the laws prohibiting or restricting trade among the three countries. European countries were doing the same thing and establishing the European Community (EC) as a free trade zone in Europe. What was the purpose of these negotiations? Do you think all citizens of those countries supported these free trade acts? (The purpose of the acts was to encourage voluntary trade among citizens of different countries and to develop more satisfaction among citizens of those countries.)

WHAT DOES MICHAEL JACKSON HAVE IN COMMON WITH A JEEP?

INTRODUCTION

History American pop culture—music, movies, and television programming—has dominated the world entertainment market since the end of World War II. In export sales, U.S. sales of entertainment products and services are currently exceeded only by sales of airplanes. U.S. manufacturers of automobiles once dominated the world market, too, but during the 1970s U.S. automakers lost their dominant position. There is an exception, however. The American-made Jeep has become popular with consumers throughout the world.

Mystery The sounds and images of pop culture and the nuts and bolts of a Jeep: these two worlds seem about as unlike one another as any we might imagine. How could they, taken together, exemplify the current strength of the U.S. export industry?

Economic History Michael Jackson and the Jeep give consumers what they want, regardless of political boundaries. The industries they represent have produced a blend of image and quality that has proved to be responsive to consumer demand. Their success may suggest ways in which other U.S. industries also could compete more effectively in the world market.

CONCEPTS

Trade Deficit
Consumer Choices

OBJECTIVES

- ♦ Review trends in the U.S. trade deficit.
- ♦ Brainstorm ideas to make U.S. products attractive to consumers.
- ♦ Make investment decisions regarding product quality and image.

LESSON DESCRIPTION

Students will analyze trade data to identify the large U.S. trade deficit. Then they will read a case study about two U.S. products that successfully competed in the world market in the 1990s and draw inferences from these examples which they use in making recommendations about how other products can compete successfully in the world market. They will allocate funds in a simulated firm to promote image, quality, and investment. In closing, they will apply these lessons to the question of how to improve elementary and secondary schools in the United States.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency of Visual 1.

Copies for each student of Activities 1 and 2.

A poster of Michael Jackson or any other popular U.S. musician whose records sell well in other countries.

A picture of a Jeep.

PROCEDURE

1. Display a large poster of Michael Jackson and a Jeep. Ask students to speculate about what they might have in common. (Accept a variety of responses.)

2. Show students Visual 1. Ask them to note carefully that the U.S. trade deficit became very large in the 1980s. In the earlier part of the 20th century, the United States usually had a trade surplus. Explain that a trade deficit means that the dollar value of that nation's exports is less than the dollar value of its imports. We pay out more dollars to buy merchandise made in other countries than consumers in other countries pay to buy our products.

3. Ask the students to identify U.S. products that they think consumers in other countries purchase in large numbers. Why do sellers of these products have success in other countries? To answer this question, distribute Activity 1 and ask the students to answer the questions. *Ask:*

A. What was the biggest U.S. export in the early 1990s? (Pop culture—represented by Michael Jackson—and the Jeep.)

B. Explain how image, quality, and investment are important for competing in world markets. (Throughout many parts of the world the United States has an image associated with freedom and excitement. Consumers also want high quality. Firms invest time and money in new products they hope consumers will find attractive.)

CLOSURE

Summarize the lesson by asking: What does Michael Jackson have in common with a Jeep? (Both are popular export items purchased voluntarily by consumers in other countries. The Jeep is a successful export in an industry with few successful U.S. export models. Michael Jackson is one of many successful artists whose work is a successful export in an industry with many successful export products.)

VISUAL 1

U.S. MERCHANDISE TRADE BALANCE, 1980–1990 (in billions of dollars)

Year	Trade Balance
1980	-31.4
1981	-34.6
1982	-38.4
1983	-64.2
1984	-122.4
1985	-133.6
1986	-155.1
1987	-170.3
1988	-137.1
1989	-129.4
1990	-123.4

A *trade deficit* exists when the dollar value of U.S. exports of merchandise is less than the dollar value of U.S. imports of merchandise.

Example: In 1990 U.S. citizens bought items made by citizens of other countries worth $123.4 billion more than the items produced in the United States that were bought by citizens of other countries.

Name________________

ACTIVITY 1

WHAT DOES MICHAEL JACKSON HAVE IN COMMON WITH A JEEP?

IF AMERICANS ARE GOING TO REDUCE THE U.S. trade deficit, they need to make products that customers from other countries will buy. Simple, right? Actually, figuring out which products will sell —which ones consumers will choose—can be difficult. Let's look at a few American products that consumers from other countries have chosen and see if it is possible to identify what those products have in common.

To begin, let's look at America's No.1 export in the early 1990s. What is it? The answer is Michael Jackson. Well, all right, not *just* Michael Jackson, but all of American pop culture. Young people all over the world want to wear Levi's blue jeans. They want to drink Coke. They eat Big Macs at McDonald's in Japan or France and wear "I love New York" T-shirts in Moscow or Buenos Aires. Moviegoers in Tokyo want to see the latest Hollywood hit. And, yes, fans around the world have spent millions to listen to Michael Jackson, to watch him on television and in concert, and to buy his videos. Add up all the American pop culture products, and you have the most successful export the U.S. produces.

Why do buyers in other countries choose products representing American pop culture? Well, one attractive aspect of such products is their *image*. American pop culture stands for freedom, fun, creativity, and excitement. It offers new things, a break from old traditions. This *image* of life in the United States appeals to many people. They choose products they associate with that image.

But is this the answer to correcting our trade deficit? Is *image* the only thing buyers choose?

No. *Image* matters, but it is more important in some products than in others. Think about the gasoline that you put into a car—no one sees it, no one can tell which gas station you use. The *image* of gasoline doesn't matter very much, because it is invisible to the buyer and to the people that the buyer might want to impress.

However, the *quality* of the gasoline matters some. If you use a brand of gas that is dirty, and it fouls up your carburetor and costs you a lot of money in a big repair bill, you'll be angry. You'll buy another brand of gas next time (after you fix your car!). When it comes to a product like gasoline, buyers consider *quality* when they make their choices. So buyers choose some products because of *image*, and some because of *quality*. The best bargain is probably the product that offers *both* image and quality at a reasonable price.

Think about Michael Jackson again. He offers an image—but, given the standards of popular entertainment, he offers quality, too. If a fan in Tokyo paid $50 to see him in concert and he forgot half his songs, missed half his dance moves, and ended the show after 20 minutes, that fan probably would not buy a ticket again.

Think about the Jeep. The Jeep? There were not many Japanese buyers choosing to buy American cars in the 1990s but, for those who did, the Jeep is one of the top choices. Why? Think about it. The Jeep has an *image* (tough, independent, adventurous, free-spirited—that American pop culture image!), and it has *quality*. If a Japanese buyer thinks the quality is pretty solid, and the image of the Jeep is better than the image of other options, the combination of good quality and good image may mean that the buyer chooses Jeep.

Manufacturers need to analyze and plan, to be ready with a product that has the right mix of *image* and *quality*. Analyzing and planning takes time and money, but the manufacturer who wants to make a product that people will choose is willing to invest time and money. Investment costs, but if the manufacturer chooses to pay the cost, the rewards may be a product that consumers choose.

Let's go back to Michael Jackson. Did he invest? Yes! He spent money on costumes, choreographers, public relations, and more (*image*). He also had to spend time planning his performances, practicing them, refining them (*quality*). Without the investments Michael Jackson made, and continues to make, he would not have been able to offer a product (himself) that people would choose.

QUESTIONS FOR DISCUSSION

1. What was the biggest U.S. export in the early 1990s?

2. Explain how image, quality, and investment are important for competing in world markets.

WHY DOES THE U.S. GOVERNMENT DISCOURAGE WORLD TRADE?

INTRODUCTION

History In the years following World War II the United States has encouraged free trade among nations. As trade has expanded, the world economy has grown and living standards worldwide have improved. Like all other nations, however, the United States has had certain protectionist practices that interfere with free trade in a variety of ways.

Mystery Why does the world's leading proponent of free trade not consistently practice it?

Economic History Economists generally agree that free trade makes sense, economically. But good economics is not always good politics. Some groups always profit from protectionism, and their gains tend to be immediate and concentrated. To secure those gains, they participate actively in the political process. The losses that follow from protectionism are more apt to be diffuse—spread out over a large number of consumers. These consumers are not likely to engage in political activity aimed at preventing the price increases caused by protectionism. In some cases they might not even notice the increases, or they might discern them only vaguely, without linking them, say, to a U.S. quota or subsidy. Politicians who write protectionist legislation have a strong incentive to be responsive to organized groups that participate actively in the political process. They have less incentive to be concerned about unaffiliated, politically inactive consumers.

CONCEPTS

Incentives
Protectionism
Rent-seeking (Favor Seeking)

OBJECTIVES

♦ Recognize the influence of incentives on political decisions, and predict legislative outcomes.

♦ Identify the costs and benefits of protectionist laws for consumers and producers in the United States.

♦ Use principles from the *Handy Dandy Guide* as criteria for evaluating three statements regarding trade laws.

LESSON DESCRIPTION

Students will use supply and demand analysis to analyze potential costs and gains for producers and consumers of a protectionist law for mattresses. They will use this analysis to predict potential levels of political support for two other protectionist laws.

TIME REQUIRED

♦ One class period

MATERIALS

One transparency each of Visuals 1, 2, 3, and 4.
One copy for each student of Activities 1 and 2.

PROCEDURE

1. Ask students what the following items have in common: Jamaican ice cream, Mexican brassieres, Polish alloy tool steel, Haitian sugar, tampons, typewriter ribbons, tents, twine, table linen, tapestries, neckties, photo albums, pears, mirrors, ethanol, cement, shock absorbers, roofing shingles, codfish, television sets, paint brushes, aspirin, rice, wool, castor oil, lamb meat, flowers, bicycles, martial arts uniforms, radios, ball bearings, yarn, scissors, ham. (Accept a variety of responses. Explain that when these products are produced by a foreign manufacturer, U.S. trade rules restrict their sale in the United States.)

2. Ask students why, since trade creates satisfaction, we have laws restricting the sale of products made in other countries? To answer this question, we must look at who gains and who loses when trade laws change.

3. Explain to the class that the behavior of politicians is often a puzzle. For an example,

display Visual 1, and invite the class to use economic reasoning to explain the senator's action. Why would a U.S. senator—known for integrity and service to constituents—vote "yes" on a bill that would raise the prices consumers have to pay for mattresses? Explain that the answer has to do with choices, costs, and incentives.

4. Display Visuals 2 and 3. Discuss the assumptions about political behavior, voter behavior, campaigns, and interest groups.

5. Based on Visual 4 and Activity 1, ask students the following questions:

1. How much additional money will consumers have to pay for new mattresses under the new law? ($50 more per mattress. Assuming sales of 7 million mattresses, consumers will pay $350 million in extra expenses, and 3 million purchases may be forgone because some people will not want to pay the increased price.)

2. How much extra revenue is received by the 10 U.S. firms that manufacture mattresses? ($50 more per mattress. Assuming sales of 7 million mattresses [no new production over their previous production], manufacturers will gain $250 million over and above the revenue they made under the previous law. U.S. firms will gain 2M mattress sales (from 5M to 7M in sales).

   $350 x 2 million mattresses (new production) = $700,000,000.

   Total new revenue to U.S. manufacturing firms is equal to
   $250M increased prices ($50 x 5M)
   $700M increased production
   $950M total revenue increase or
   950/10 = $95M per firm
   per year

3. What are the costs and benefits of this policy to:
   a. Consumers? (Higher prices and fewer new mattresses purchased.)
   b. Producers? (Major increase in revenues with a small increase in costs for new production.)

4. Which group would have concentrated and highly visible gains and thus be more likely to view the situation as an important economic issue worthy of political action? What actions can this group take? (Producers and workers involved in mattress manufacturing will experience large gains. They will have incentives to lobby for a trade bill, make contributions to a politician's campaign fund, and support or threaten to withdraw support for the politician's reelection.)

5. Would consumers be likely to exert the same effort in political action? Why or why not? (No. The cost for them is so diffuse and nearly invisible that it most likely isn't important enough to prompt individual consumers to oppose the bill. Many consumers may not even be aware of the bill or its costs.)

6. What are the costs and benefits of the bill's passage for the politician?
   (*Benefit:* The politician gains the continued support of special interest groups including those who represent producers and workers.
   Cost: Probably none, since consumers/voters will probably not base their voting decisions or political contributions on this one bill. It is unlikely that voters would act in concert to reward the politician for defeating the bill.)

7. Whose interests do you think the politician will support if reelection and campaign contributions are important? (The interests of the mattress producers.)

8. Why might this decision be good politics? Why might good economics not be as obvious as bad politics? (For the senator, the political benefit of continued political support far outweighs the cost to consumers of a small amount of

nearly hidden extra money that now must be paid for mattresses.)

9. If we can assume that passage of this bill is not the work of greedy, evil people, how could the role of incentives explain it? (Each person is responding rationally to the incentives related to his or her interests. Business leaders and representatives of workers want a corporation to be profitable to keep people working. Political leaders need to make tough political decisions about whether or not to offend special interests to benefit consumers.)

CLOSURE

Explain to the class that citizens need practice in applying economic reasoning to specific international policies. Distribute Activity 2 and ask students to assess the potential costs and benefits of each proposal.

STATEMENT 1: "This country has a terrible trade deficit with Japan. We buy many more goods from Japan than the Japanese buy from us. To end this problem we should pass a law making it illegal to buy a Japanese-produced product."

CATEGORY	SUGGESTED ANSWERS
Costs	All electronic and auto products would increase in price. The quantity and variety of consumer goods available would decline. Competition would decline.
Benefits	It might reduce the trade deficit unless consumers substituted other foreign-made products for Japanese products.
Likely to Pass?	No. The costs are too large and obvious to the public. It would hold Congress responsible for helping a few U.S. producers at the expense of the public.

STATEMENT 2: "U.S. producers of cedar shake shingles (a popular, expensive, and attractive roof covering) cannot compete with low-cost Canadian imports. To save jobs in the cedar shake industry, we must ban the sale of Canadian cedar shake shingles in the United States."

CATEGORY	SUGGESTED ANSWERS
Costs	Increased prices to cedar shake buyers; little impact on the total economy because shingle production represents a very small fraction of total production.
Benefits	Much higher income to a small population of very politically active producers who are willing to help the politician who went to bat for them in Washington, D.C.
Likely to Pass?	Yes. The costs are small, and they are spread among a large number of people who may not notice the difference in price. The benefits are concentrated among a small number of people who will remember—and help—the politician who helped them.

VISUAL 1

ECONOMIC MYSTERY
WHY RAISE THE PRICE OF MATTRESSES?

Why would a U.S. senator, known for integrity and service to constituents, be willing to vote "yes" on a bill that would raise prices of mattresses for consumers?

VISUAL 2

ECONOMICS OF POLITICS

ASSUMPTIONS ABOUT POLITICAL BEHAVIOR

Most politicians are decent individuals to whom community service is a deep and compelling value.

Most politicians would like to keep their elected office. Politicians cannot serve others unless they are reelected by voters.

ASSUMPTIONS ABOUT VOTER BEHAVIOR

Most voters are busy people. They do not choose to learn much about the daily work of their elected officials.

It is difficult for a politician to gain the support of voters who are not paying much attention.

VISUAL 3
POLITICAL INCENTIVES

CAMPAIGNS

The cost of running media campaigns to attract voters is too high for most politicians to pay personally.

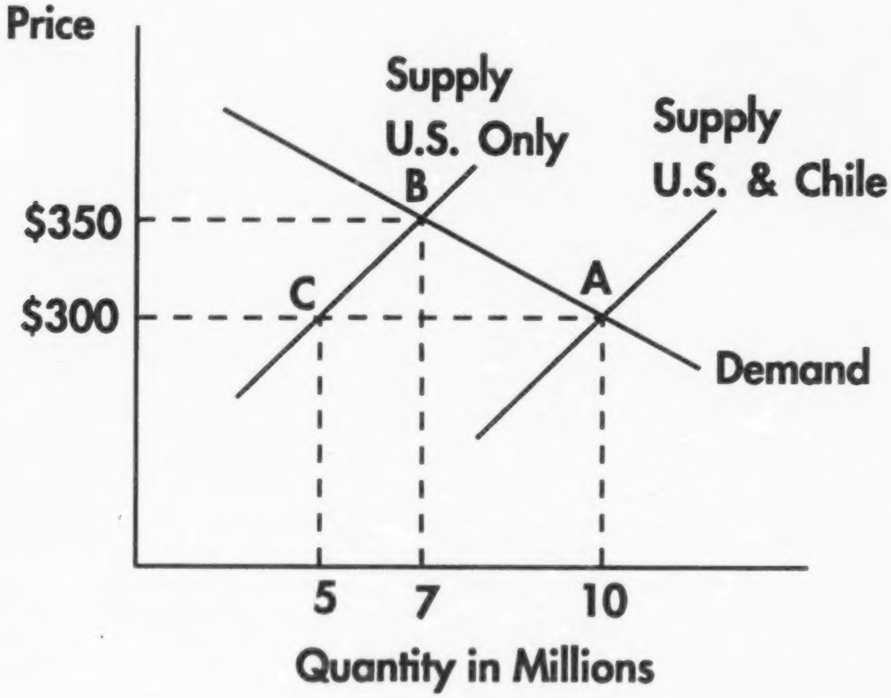
Politicians rely on interested individuals and interest groups to give money for campaigns.

Politicians depend on interest groups for ideas and information.

INCENTIVES

Politicians, including those with strong desires to serve all constituents, face incentives that reward them for favoring special interests.

VISUAL 4
THE MATTRESS MARKET



From *United States History: Eyes on the Economy,* ©National Council on Economic Education, New York, N.Y.

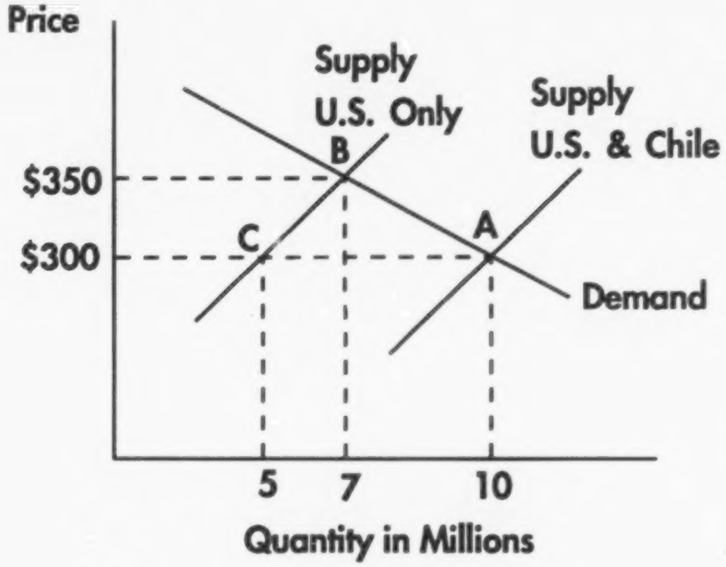
Name____________________

ACTIVITY 1
THE MATTRESS MARKET

MATTRESS MADNESS?

All American–made mattresses are manufactured by 10 companies located in the state of Euphoria. Currently one–half of all mattresses purchased in the United States are American–made, and the others are made in Chile. Two years ago, however, American–made mattresses accounted for 90 percent of all sales in the U.S. producers in Euphoria are worried about the Chilean competition and have asked their Senator to help them by getting Congress to pass a law requiring that all mattresses sold in the United States also be produced in the United States.

The current price for a mattress is $300. A local economist estimates that prices will rise to $350 if the Chilean producers are forced out of the market. Currently about 10 million mattresses are sold annually. The economist estimates that, if prices rise, sales will drop to 7 million mattresses. Look at the graph below and decide who gains and who loses in this situation.



QUESTIONS FOR DISCUSSION

1. How much additional money will consumers have to pay for new mattresses under the new law?
2. How much extra money will be made by the 10 domestic mattress firms?
3. What are the costs and the benefits of this policy to: Consumers? Producers?
4. Who would receive concentrated and highly visible gains from protecting mattresses and therefore be willing to take political action? What actions might they take?
5. Would mattress consumers be likely to exert the same effort in political action?
6. What are the costs and benefits of the bill's passage to the politician?
7. Whose interests do you think the politician will support if reelection and campaign contributions are important?
8. Why might this decision be good politics?
9. If we assume that passage of this bill is not the work of greedy, evil people, how could the role of incentives explain the behavior of mattress producers and politicians?

Name____________________

ACTIVITY 2

EVALUATING TRADE POLICY PROPOSALS

Evaluate the following statements by assessing whether the policy implied by each would increase or decrease costs for the U.S. consumer if the statement in question became law. Also predict which statement is more likely to be made law, considering the influence of incentives on political behavior. Explain each prediction briefly.

STATEMENT 1:

"This country has a terrible trade deficit with Japan. We buy many more goods from Japan than the Japanese buy from us. To end this problem we should pass a law making it illegal to buy a Japanese–produced product."

CATEGORY	ANSWER	REASONS
Costs		
Benefits		
Likely to Pass?		

STATEMENT 2:

"U.S. producers of cedar shake shingles (a popular, expensive and attractive roof covering) cannot compete with low–cost Canadian imports. To save jobs in the cedar shake industry, we must ban the sale of Canadian cedar shake shingles in the United States."

CATEGORY	ANSWER	REASONS
Costs		
Benefits		
Likely to Pass?		

SAMPLE TEST ITEMS

LESSON 1

1. Social approval can be a powerful incentive influencing an individual's choice. When America needed factory workers during World War II, the U.S. government and employers encouraged women to take factory jobs. Most of these women had never worked in factory jobs before the war. Many women responded to this call to work, became factory workers, and helped the United States win the war. Which of the following statements *best* explains the circumstances described above?

A. All choices involve cost.
✓B. People respond to incentives in predictable ways.
C. People never consider incentives when they choose a job.
D. Voluntary trade creates wealth.

2. Women in the United States now hold a greater percentage of the jobs in the economy than they did in 1965, and they work at many jobs where women usually did not work in 1965 (construction work, police work, military service, business management, for example). Which of the following statements is an *incorrect* explanation of this change.

✓A. Today's woman is altogether different from women living in the 1800s and the early 1900s.
B. Many written and unwritten rules have changed and allow women to select alternatives which were not available to women in the 1800s and early 1900s.
C. Women have always chosen to work. The current change has only shifted how much they are paid and where they can work.
D. The costs and incentives to working women have changed since the 1800s and early 1900s.

LESSON 2

1. Each year for the past 10 years the federal government has spent more money than it received as revenue from taxes. Which of the following answers best explain why these deficits have occurred?

A. Other issues like low taxes are more important to voters.
B. Other issues like increased spending on highways and bridges are more important to politicians.
C. Most voters don't know that deficits cause problems.
✓D. All of the above answers are correct.

2. If large federal deficits contribute to higher interest rates, which of the following groups will benefit from government deficits?

✓A. Savers.
B. Borrowers.
C. High school students.
D. None of the above.

3. Suppose Congress passed a 5 percent national sales tax on all consumer goods sold in the United States to raise revenue and eliminate the federal deficit. Which of the following people would probably favor this proposal?

A. A Ford dealer selling cars in Mississippi.
B. A car buyer in Sacramento, California.
C. A teacher in Atlanta, Georgia.
✓D. The owner of an appliance store located in Canada near the U.S. border.

4. Voters are often critical of political officeholders because reelection seems to be more important to politicians than any other issue. Use the *HDG* to explain why reelection would be a very important issue for a politician.

Possible answer: Politicians choose to run for office as a career. They may do this for self–serving reasons (personal gain only) or to serve the voters unselfishly. Whatever the reason for the choice, a politician must get elected and reelected to be successful in this career. A politician without public office lacks power and influence. Therefore, the cost of losing an election is very high to a politician (*HDG* #2). This possibility increases the incentive to officerholders' to make decisions that please voters and which help the politician raise money to pay for election campaigns (*HDG* #4). We should not be surprised that the economizing behavior of politicians focuses on reelection.

5. The federal budget deficit for 1991 was $348 billion. Explain how you would reduce the

deficit to zero and create a balanced budget. Then explain the consequences that would result from your policies and actions.

Possible answer: One could increase taxes, reduce spending, or do a combination of tax reduction and spending reduction. The consequences would be lower interest rates, higher taxes, and less government service.

LESSON 3

1. After World War II the U.S. economy was the largest producer of goods and services in the world. How has its role in world trade changed since World War II?

✓A. The trade between U.S. citizens and citizens of other countries has steadily increased.
B. The trade between U.S. citizens and citizens of other countries has steadily decreased.
C. The trade between U.S. citizens and citizens of other countries has stayed the same.
D. No one knows how much trade takes place between citizens of different countries.

2. Describe two different types of laws that restrict the amount of trade between citizens of different countries. Explain which U.S. citizens might favor such laws.

Possible answer: Tariffs—taxes paid on imported goods—raise the price of imported goods for consumers. Quotas are restrictions on the total amount of foreign–made products that can be sold in the United States. Any citizen who would benefit from having less competition from foreign–made products will probably favor tariffs and quotas.

3. How can increased trade with citizens of other countries help the U.S. consumer?

A. With increased trade, consumers have a greater variety of products to choose from.
B. Increased competition among sellers reduces prices.
C. Increased competition among sellers increases quality.
✓D. All of the above answers are correct.

4. Which of the following groups would tend to support a law restricting the number of foreign–made automobiles in the United States?

A. Workers in a General Motors auto plant.
B. The boss of Chrysler.
C. The senator from Michigan.
✓D. All of the above answers are correct.

5. What incentive do political leaders have to support laws that restrict international trade?

Possible answer: Groups who benefit from the laws tend to vote for the politician who supported the law. The benefits of restricting international trade are clear, direct, and large enough to be important to those voters. Groups who pay increased costs because of the laws do not vote against the politician on the basis of that one decision. The cost to them is usually small, indirect, and not obvious.

LESSON 4

1. Imagine that you are a high school student who wishes to become a successful physician in 15 years. You will need to make *investment decisions* if you hope to reach your goal. Which of the following investments would you decide to make? Circle your selections, and explain each choice with a few sentences.

NOTE: Remember that every investment choice has a cost. For example, if you choose to spend time or money on one investment, you will not be able to use that time or money on anything else.

A. Spend at least 10 hours per week studying biology and chemistry.

B. Spend at least two hours per day windsurfing or snowboarding.

C. Work at a part–time job 20 hours per week and spend your income on new clothes.

D. Work at a part–time job 10 hours per week and save the money for college.

E. Do research to determine which colleges send the most graduates on to medical school, and what are the entrance requirements for those colleges.

Possible answers: Most likely, students will select A, D, and E; explanations should connect the *investment* to an increased likelihood of successfully completing college and entering a medical school; more mischievous students might choose B or C, justifying the choices with reference to the physical stamina needed to be a surgeon or to the need to look good to impress teachers and get good grades, but students should be reminded of *opportunity cost* and asked if such choices would be the best use of their time and money.

2. Which of the following best identifies the reasons consumers in other countries might have for choosing to buy an American product?

A. American products have high quality.
B. American products are cheaper than other products.
✓C. Consumers in other countries will buy an American product if it offers a mix of quality and image superior to the mixture offered by other products.
D. Consumers in other countries like the U.S. image and will buy things made in the United States because of that image.

3. When the dollar value of a nation's exports is less than the dollar value of a nation's imports, we say that the nation has:

A. A trade surplus.
✓B. A trade deficit.
C. A balance of exports to imports.
D. A global economy.

LESSON 5

1. The U.S. producers of tomatoes are facing increased competition from tomato producers in Mexico. To save U.S. tomato growers, the U.S. Senate wishes to ban imports of Mexican tomatoes. Who is hurt if this legislation passes?

A. U.S. senators.
B. U.S. tomato growers.
C. Mexican consumers.
✓D. U.S. consumers.

2. Use economic reasoning to explain why a U.S. senator might vote for passage of protectionist legislation.

Possible answer: Politicians face strong incentives from interest groups that have visible and highly concentrated gains from passage of protectionist legislation. Voters' interests are often diffuse and almost invisible and thus present weaker incentives to politicians.

National Council
on Economic Education

THE EconomicsAmerica AND EconomicsInternational PROGRAMS

1140 Avenue of the Americas, New York, NY 10036
212.730.7007 *fax* 212/730.1793 ncee@eaglobal.org

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